

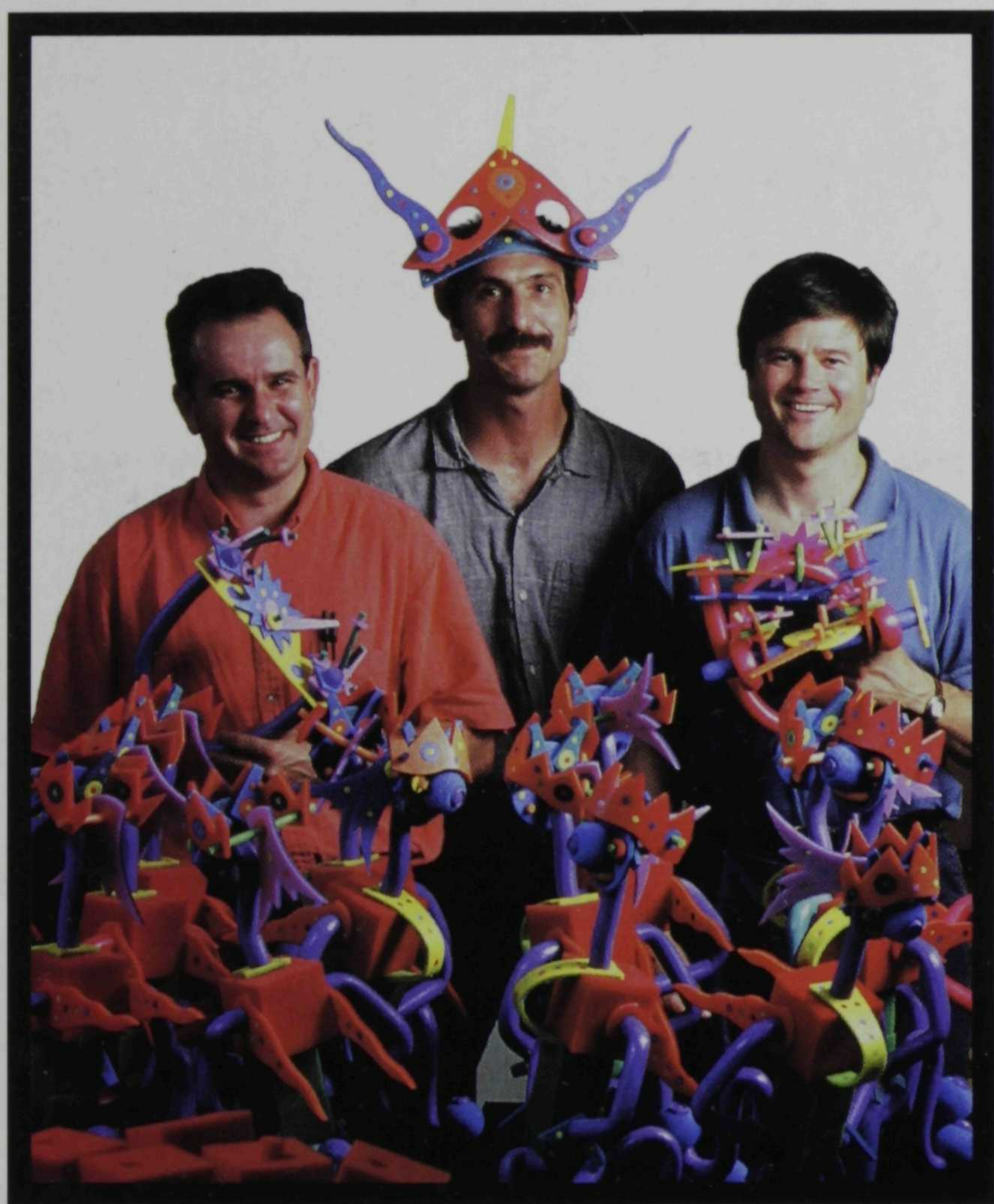
Nation'sBusiness[®]

The Small Business Adviser

**Trimming Your
Travel Costs**

**New Tools Enliven
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**Hybrid Health Plans
Gaining Popularity**



Sales at exhibitions are providing a big lift for small companies like HandsOnToys Inc., maker of Toobers & Zots.

Using TRADE SHOWS To Sell



Published by
U.S. Chamber of Commerce
NOVEMBER 1996 - \$2.50



*Special Report
On Luxury Cars,
Page 61.*



IT'S AN OFFICE FOR THOSE CAUGHT BEHIND

THE NEW 1997 CHEVY VAN® GIVES YOU MORE COMFORT AND CONVENIENCE TO WORK WITH. Schedules are tight. Getting in and out of a van shouldn't be. So we made the front door openings wider and lower than our older body styles by moving the front axle and engine forward.

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packed tighter than cargo. Plus, there's more room for stepping between front seats to get to the rear.

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PHOTO: T. MICHAEL KEZA

Trade shows such as this sporting-goods exhibition in Chicago are must-go events for many small companies. The shows enable firms to display their wares, increase sales, check their competition, and communicate their preferred image. Cover Story, Page 20.



PHOTO: ©EDWARD CALDWELL

Snowboard makers Bev and Chris Sanders are riding the crest of "a lifestyle business." Making It, Page 14.

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Editor's Note

An Opportunity Untapped?

Trade shows may strike some business people who have products to sell as an expensive waste of time, and there's no question that they can be. But they have also proved to be just what some companies need to jump-start their sales.

This month's cover story, written by Contributing Editor Dale Buss, describes the experiences of small companies that have tapped the potential offered by trade shows, and it suggests why there's expected to be a burst of growth in this industry by the year 2000.

If you haven't explored this sales avenue, you're likely to find reason to after reading this colorful article. It begins on Page 20.



PHOTO: ©SCOTT GOLDSMITH

Modern software helps Dale and Marcy Tudor convey their inn's rural charm. *Small Business Technology*, Page 34.

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Cover Photo: ©Richard Howard

On The Cover: *HandsOnToys* partners Rustam Booz, Arthur Ganson, and Andrew Farrar, makers of *Toobers & Zots*.

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We've also expanded our business-travel coverage this month with a new quarterly feature called Travel Time. The kickoff, starting on Page 29, examines how small companies are managing their travel budgets in light of rising costs, and it offers tips on how you can hold the line on your travel expenses, too.

If you're in the market for a new car or simply like to keep abreast of the latest trends, don't miss our special report on 1997 luxury cars, beginning on Page 61.



PHOTO: ©SANTA FABIO—BLACK STAR

Like Dan Marshall (seated in the car in the photo) of Marshall Music Co., you may discover some intriguing new features among the latest top-of-the-line models. Checking out a new Buick Park Avenue Ultra with Marshall is Glenn M. Buege, president of Glenn Buege Buick, Inc., in Lansing, Mich.

No matter what's on your mind about your company as you move toward year-end, chances are you'll find something in this issue to help you maximize your business potential. That's our goal in planning each issue. We hope you enjoy this month's features.

Mary Y. McElveen

Mary Y. McElveen
Editor

Nation's Business

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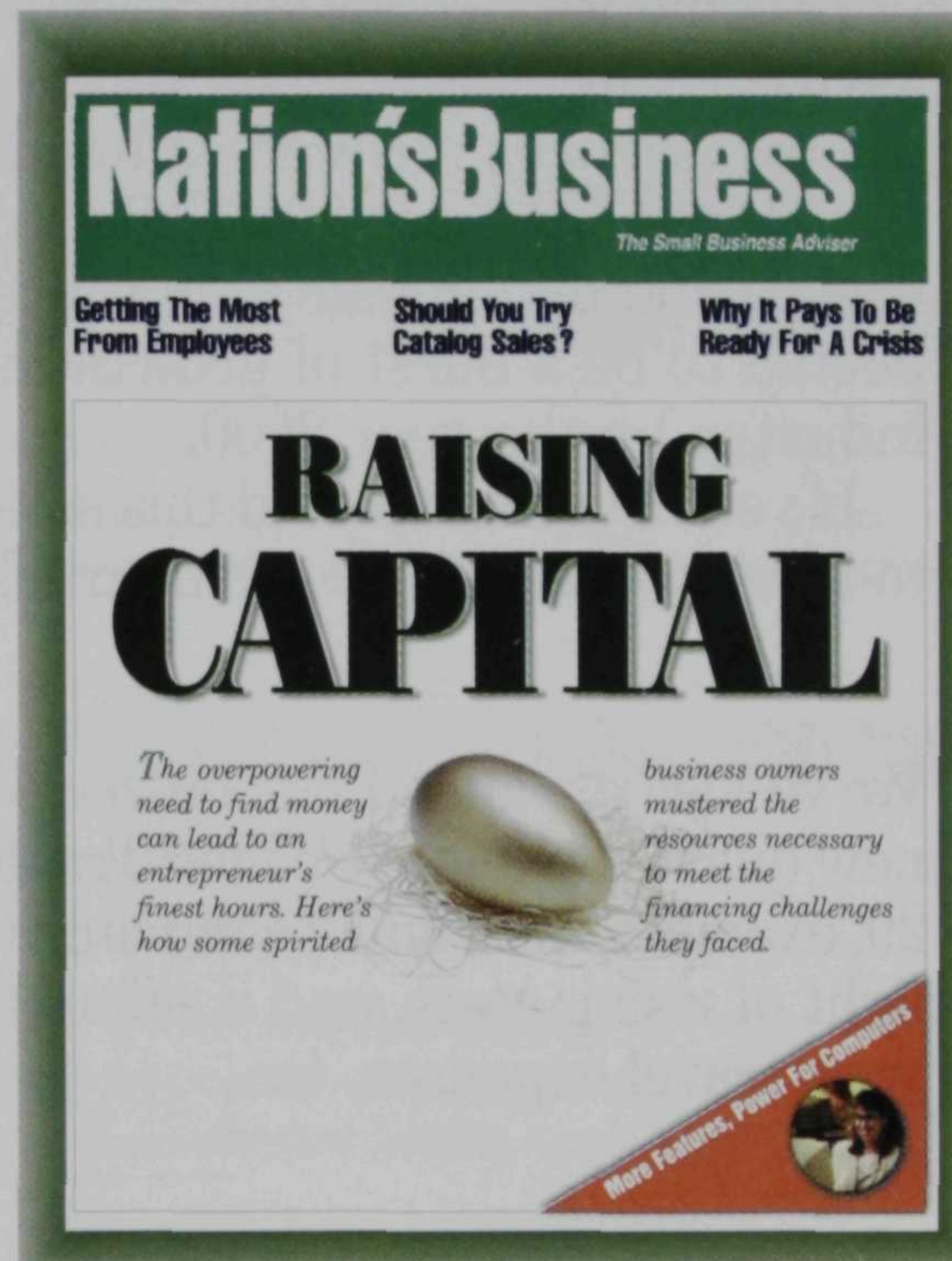
Getting Owners, Investors On The Same Page



In response to your September cover story on the ups and downs of raising capital, "Capital Ideas For Financing," I thought I might be able to shed some light on ways to help business owners reach their "finest hour" without wasting a tremendous amount of time and energy.

As an associate with a mergers and ac-

quiditions firm that has done more than 35 transactions (many of which have provided middle-market, privately held companies with the equity capital required to expand, as well as liquidity for their owners), I can say that the most difficult part of these transactions is matching the expectations of the owner and the investors.



How can this be avoided? As an intermediary, we always want to understand what the investors have done in the past and what they bring to the table besides money. Prior to an introduction to one of our clients, we make sure the investor has a solid track record for the type of transaction we are trying to achieve.

The investors are not the only ones who can complicate the process. Many owners whom we interview as prospective clients have unreasonable expectations of what their companies are worth.

Owners must be realistic in their evaluations and must build a case to the investor based on the size and growth of the

industry, management talent, company performance, and numerous other factors.

Covering these issues upfront will save valuable time and will help owners to weed out investors who are not likely to help them and to focus on investors who are highly qualified and have a history of getting deals done.

Howard Hecht

Green Park Development Resources Inc.
Port Washington, N.Y.

The Middle Ground For Press Releases



I just finished reading "Giving The Media Food For Thought" [Entrepreneur's Notebook, September]. As a former journalist and the owner of a start-up business, I can tell you that John Gottfried has prepared a feast for your readers. His advice is right on target.

My own company, CopyDesk, Inc., fills a unique niche: We're an outsourcing agency for free-lance writers. The popularity of the outsourcing trend and the service we provide gave us a great angle for our own press release.

The result has been newspaper and magazine articles, television appearances, and speaking engagements.

While Gottfried gives great advice for preparing press releases and dealing with the media, not everyone writes well enough to communicate clearly and make the information interesting—a must if you want your press release to be read.

Having a professional handle your press release doesn't have to be as involved as hiring a publicist. You can hire a free-lance writer to write the release and then make the follow-up calls yourself. It's a relatively inexpensive but professional solution.

Kathryn S. Taylor, Principal
CopyDesk, Inc.
Chicago

A Grim Reminder Of Customer Bankruptcy



Your article "When A Customer Goes Bankrupt" [September] was interesting, and I was reminded of some of my company's experiences in recent years.

When one of our customers went into Chapter 11 bankruptcy in 1983, his two largest creditors were secured and kept the business operating for four years, during which time a computer lease and a bank loan were paid off.

As an unsecured creditor, we received copies of all the payouts that were

authorized by the court to various attorneys, appraisers, and others providing services to the court or the trustee.

In 1994, the court discharged the case. The owners had gone out of business in 1987. The trustee held certain real estate, the title to which was disputed by the shareholders and heirs of former employees and others. The real estate was sold at



ILLUSTRATION: GEORGIA LEIGH MCDONALD

auction, and the net amount after expenses was distributed to a few small, secured creditors. Nothing was left for anyone else.

It has been estimated that if the company had been liquidated within a year of the bankruptcy, the computer company would have had to repossess the computer, all secured creditors would have been paid, and the real-estate sale at that time would have taken care of the titleholders' claims. There would still have been enough left over to pay the unsecured creditors about 30 cents on the dollar.

*H. Verne Loeppert, President
CDV Corp.
Rockford, Ill.*

Speaking Up For The Libertarian Party

In "How Business-Friendly Are The Candidates?" [October] I found the information you presented to be great reference material for a status-quo discussion between Democrats and Republicans. What floors me is that a small-business publication would completely ignore the Libertarian Party, the only political party that stands for free trade and eliminating the myriad of government regulations.

The party's 1996 presidential candidate, Harry Browne, has written a book, *Why Government Doesn't Work*, in which he details real solutions for balancing the budget, ending the deficit, and drastically reducing government intrusion.

I find your business articles very informative, but when it comes to politics, you guys need to get out more.

*Randy Smith
Springfield, Mo.*

Scams From Nigeria Keep Filling Mailbags



Your Letters section in the September issue included an excerpt from a "Nigerian scam" letter. My company gets such letters regularly.

Our file of Nigerian scam letters is about an inch thick. We have received as many as three in one week. The latest one promises us 30 percent of \$41.5 million. Such a deal!

We have never responded to any of these letters. Because the letters keep coming, we presume that they must persuade someone, somewhere, to part with his or her hard-earned money.

We have complained to the U.S. departments of Commerce and State. Others have protested to the Nigerian government, evidently with little or no effect.

Nation's Business is doing its readers a service by warning them about this fraud.

*Richard Shilling
Vice President, Sales
Arc Machines, Inc.
Pacoima, Calif.*

[Editor's Note: Indeed, some business owners continue to be taken in by the fraud. We received a call recently from such an owner seeking guidance after being duped.]

Hot Sauce Harry's, Not Peppers, Makes NFL-Licensed Product



How nice it was to see Peppers and the Starboard Restaurant featured in your August issue ["A Heaven For Hotheads," Making It]. They certainly are setting a fast pace in the spicy-food business.

One correction, however. Hot Sauce Harry's, Inc., of Dallas, is the producer of the officially licensed National Football League hot sauces; Peppers is a distributor that purchases the product from us for resale.

*Dianne Harris
President
Hot Sauce Harry's, Inc.
Dallas*

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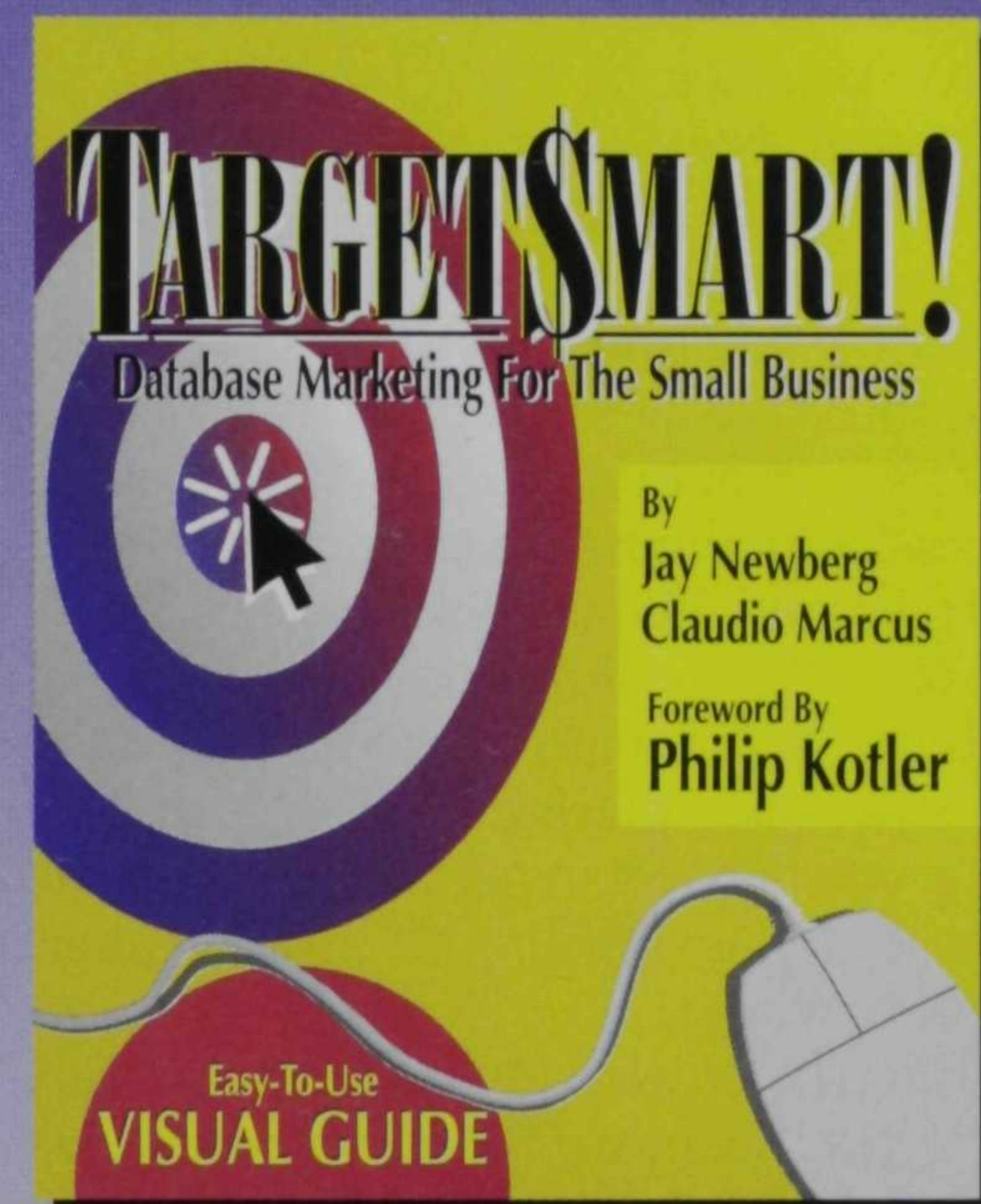
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ENTREPRENEUR'S NOTEBOOK

By Andy Bluestone

Succession Planning Isn't Just About Money

Most of us equate business succession planning with working out the financial details following the death of the owner. In fact, through the use of various life-insurance techniques, I'm continually showing business-owner clients ways to do just that—to prepare for making a smooth and cost-effective transfer of their business to the next generation. It's what I do as president of Selective Benefits Group, my financial-services firm, in Cedar Knolls, N.J.

But if I've learned anything since joining my father's business at age 22 and then purchasing it from him at 28, in 1987, it is that succession planning doesn't end with an estate plan and life-insurance policies.

Protecting the financial aspects of any business is, in fact, just the beginning; real succession planning involves developing a strategy for transferring the trust, respect, and goodwill built by one generation to the next.

Although we actively planned the transfer of the business for three years, Dad started building bonds of trust between his clients and me—roughly one-third of our accounts at the time—as soon as I came on board.

In the years between my joining the firm and becoming its president, I'd go along each time Dad met with a client. With each passing year, I started handling more of his accounts. By the time he retired, I had taken over most of his clients.

Still, being my father's son was not going to be enough for me to retain the trust of those longtime customers; they had signed up with my father's firm, not mine.

I started applying the "power of doing the unnecessary," sending his clients notes, stopping by, and calling—not to sell anything, just to keep in touch.

If I read an article that I thought would interest them or that was related to a policy they held, I would send them a copy.

Andy Bluestone, president of Selective Benefits Group, in Cedar Knolls, N.J., prepared this account with Contributing Editor Susan Biddle Jaffe. Readers with insights on starting or running a business are invited to contribute to this column. Write to: Entrepreneur's Notebook, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062-2000.

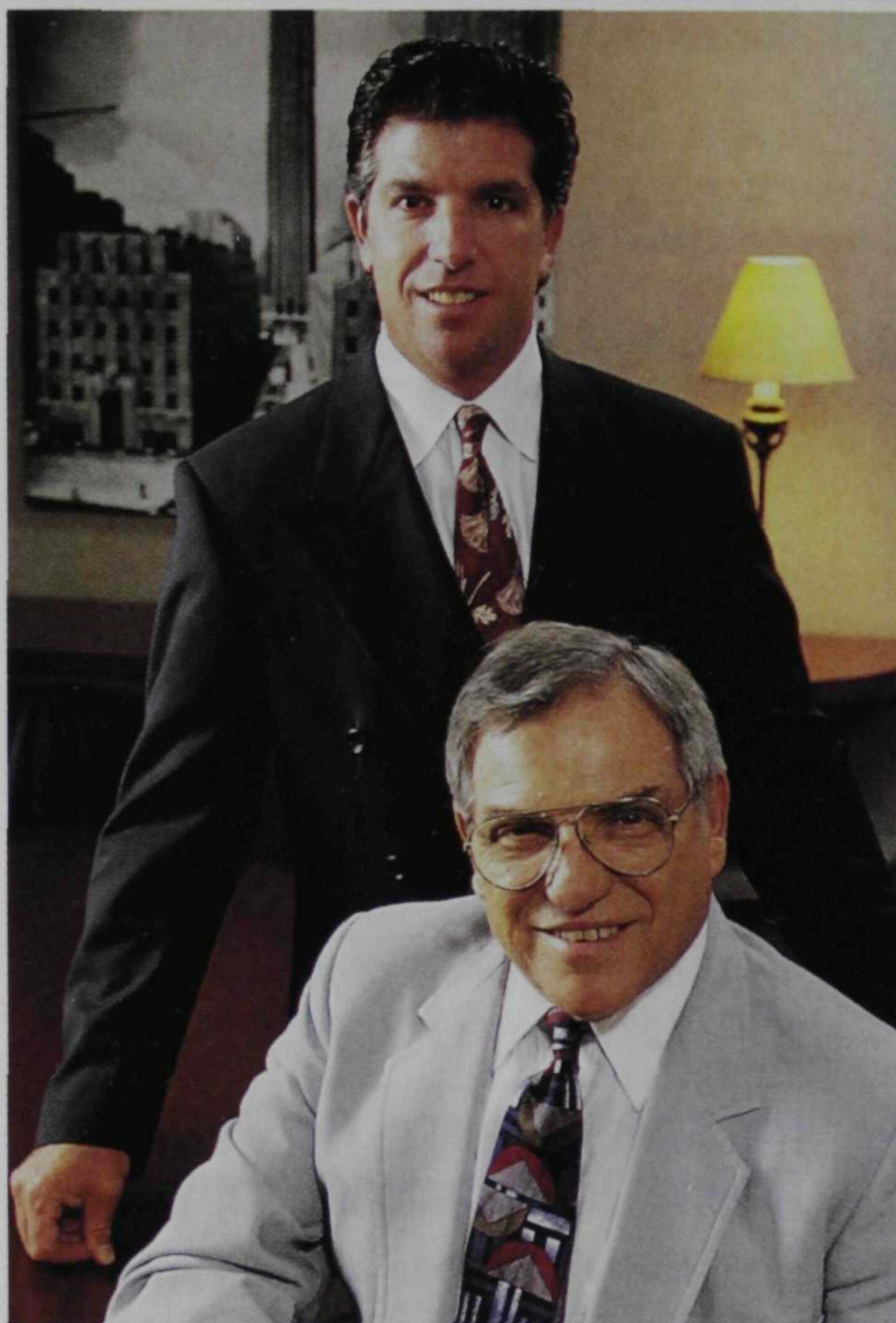


PHOTO: ©TOM SOBOLEK—BLACK STAR

The father-to-son transfer of company reins and ownership required careful planning, says Andy Bluestone, whose father, Jules H. Bluestone, later rejoined the financial-services firm as a salesman.

The point was to let them know they were on my mind and that, although it was Dad's business, I was going to serve them in my own way. This approach helped solidify my clients' trust and confidence in me.

Similarly, the succession plan recognized that I needed to develop relationships with our employees. Early on, I took over both training and sales because I felt that with the sales force behind me and with "my team" in place, I could weather any storm. As with our clients, my expanding role meant paying attention to the details, in this case whether the staff was happy and had the support, technology, and other necessities to maximize their productivity.

Fostering both client and employee confidence and trust also meant letting

people know the exact date that Dad would retire, a year in advance.

When the big day came, Dad actually left the office—an important step because it forced people to deal with me.

While no one likes firing people, I wasn't afraid to move out individuals who didn't want to be part of my team.

I also held to my plan of minimal growth the first couple of years after the transition. Choosing not to expand our client base or staff right away not only eliminated unneeded pressure but also gave people time to feel comfortable with the change in ownership.

Years of planning paid off with a smooth succession, eliminating most of the bumps on a path that many small firms eventually must take. I bought the business over the first 48 months after my father left, giving him the liquidity he needed for his retirement years.

The company has grown from eight full-time agents in 1987 to 36 today.

We earned \$3.5 million in commissions in 1995, and we have increased our client base to nearly 8,000 people. Perhaps the best testament to our success is that we continue to attract quality salespeople. My father, at age 69, became our "newest" associate last year, rejoining the firm as a salesman after he found he missed being in the business world.

NB

WHAT I LEARNED

Transferring a business to the next generation requires not only financial arrangements but also customer goodwill and employee cooperation.

You have what it takes to make your

small business into whatever you want

accomplish more

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CONGRESS

Committee Chairmanships Hang In The Balance

From the business person's point of view, the results of the Nov. 5 elections will determine far more than who will be president for the next four years and which party will control the House and the Senate for the next two.

The elections will determine to a large extent which lawmakers will preside over congressional committees that make important decisions about legislation that significantly affects business.

If Democrats regain control over one or both houses of Congress, business is likely to see significant erosion in the support it has received since 1995 from the panels that deal with many of the issues important to it. In the House, those panels include the Commerce, Small Business, Economic and Educational Opportunities, and Ways and Means committees. In the Senate, they include the Environment and Public Works, Small Business, Labor and Human Resources, and Finance committees. (See the accompanying chart.)

When the 104th Congress adjourned in October, the GOP controlled the House by a margin of 235 to 198. There was one vacancy (the seat held by the late Rep. Bill Emerson), and Rep. Bernard Sanders of Vermont, an independent, usually voted with the Democrats. In the Senate, Republicans had a 53 to 47 edge.

"If the Democrats retake the House," says Jack Pitney, an associate professor of government at Claremont-McKenna College, in Claremont, Calif., "you can title it 'Return to Jurassic Park,' because the committee chairs, in general, tend to come from a much older generation, and they tend to look much more to Franklin Roosevelt than to Bill Clinton."

Among the veteran Democratic faces in the House are Rep. John J. LaFalce of New York and Rep. John D. Dingell of Michigan. LaFalce probably would become chairman of the Small Business Committee, which he chaired from 1987 through 1994, and Dingell likely would lead the Commerce Committee, which also has jurisdiction over environmental and health matters.

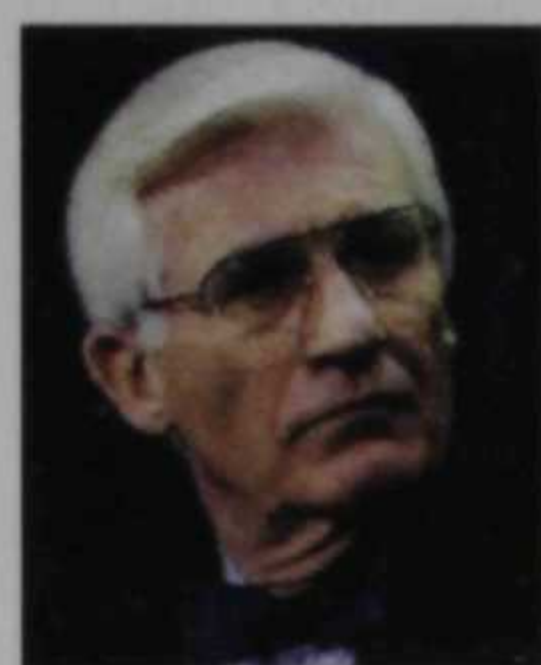
Dingell, who was elected to Congress in

Business's Stake In The Elections

If the Democrats regain control of the Senate and/or the House, Congress' practice of having majority party members head committees will put the panels in the hands of lawmakers with voting records less amicable to business. The percentages below represent each person's record of voting in favor of the business position on selected issue areas during their tenures in Congress. For the House and Senate committees focusing on each of the following areas, listed first is the Republican likely to head the panel if the GOP retains control, followed by the Democrat likely to take his place.

Commerce/Environment

HOUSE



Thomas J. Bliley Jr.
R-Va.—93%

SENATE



John H. Chafee
R-R.I.—59%



John D. Dingell
D-Mich.—23%



Max Baucus
D-Mont.—33%

Small Business

HOUSE



Joel Hefley*
R-Colo.—90%

SENATE



Christopher S. Bond
R-Mo.—88%



John J. LaFalce
D-N.Y.—35%



Dale Bumpers
D-Ark.—31%

Labor

HOUSE

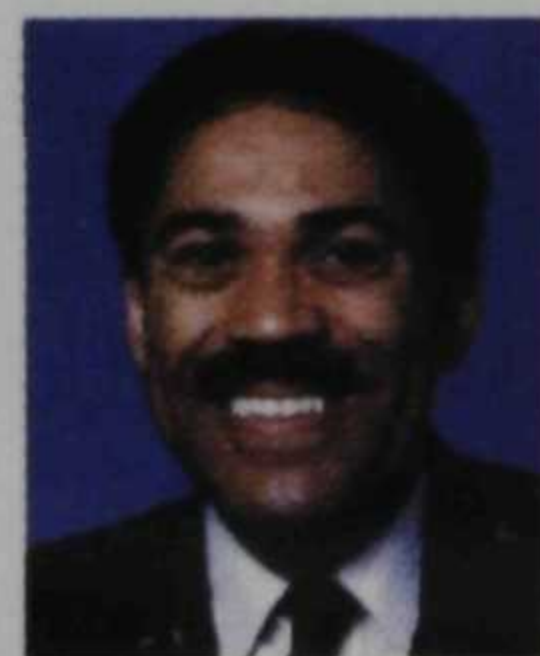


William F. Goodling
R-Pa.—78%

SENATE



Jim M. Jeffords**
R-Vt.—55%



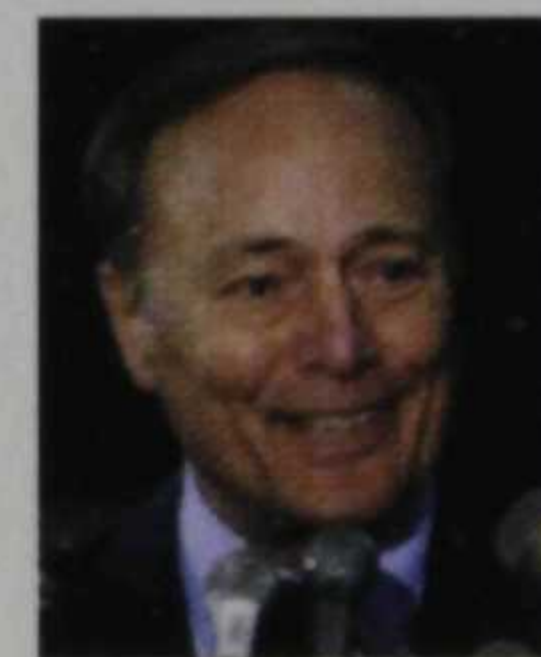
William Clay
D-Mo.—19%



Edward M. Kennedy
D-Mass.—18%

Taxes

HOUSE



Bill Archer
R-Texas—91%

SENATE



William V. Roth Jr.
R-Del.—79%



Charles B. Rangel
D-N.Y.—18%



Daniel Patrick Moynihan
D-N.Y.—28%

*Rep. Jan Meyers of Kansas, the current chairwoman, is retiring this year.

**Sen. Nancy Kassebaum of Kansas, the current chairwoman, is retiring this year.

SOURCE: HOW THEY VOTED, U.S. CHAMBER OF COMMERCE

1955, was chairman of the Energy and Commerce Committee from 1981 through 1994; the panel was renamed the Commerce Committee in 1995.

Longtime business foes likely would


take over the Economic and Educational Opportunities Committee, which handles labor, employment, and education and training matters, and the Ways and Means panel, which has jurisdiction over



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CONGRESS

taxation and trade. Rep. William Clay of Missouri is the ranking Democrat on the former, and Rep. Charles B. Rangel of New York is the senior Democrat on the latter. Clay has served in Congress for 28 years, Rangel for 26 years.

Before the Republican takeover of Congress in 1995, those committees were chaired, respectively, by Reps. William D. Ford of Michigan, who retired in 1994, and Dan Rostenkowski of Illinois, who was defeated in his '94 reelection bid.

A Democratic takeover of the Senate also would likely result in familiar but not particularly business-friendly faces peering down from the chairmen's seats on the Small Business, Labor and Human Resources, Finance, and Environment and Public Works committees. Those panels likely would be chaired, respectively, by Sens. Dale Bumpers of Arkansas, Edward M. Kennedy of Massachusetts, Daniel Patrick Moynihan of New York, and Max Baucus of Montana.

"The structure of the Senate tends to moderate the majority," says Pitney, who points to senators' ability to stall legislation through filibusters as one reason a Democratic-controlled Senate wouldn't be a "radical" change from the status quo.

President Clinton has been campaigning as a "New Democrat" who has embraced several ideals usually associated with Republicans, including welfare reform and tough crime provisions. Some of the would-be Democratic committee chairmen are distancing themselves from the centrist rhetoric, however.

In a recent interview with *The Washington Post*, Rangel indicated opposition to tax cuts and tax reform and support for more government programs. Moynihan has been critical of the recently enacted welfare-reform measure.

Says Pitney: "Congressional Democrats are...strongly committed to a traditional liberal agenda, and once in power they will see themselves as Democrats first and 'Clintonites' a distant second. The committee chairs will be to the left of Bill Clinton, to the left of the Democratic Party, to the left of the other Democrats in Congress."

On the other hand, if the Republicans retain control of Congress, only two changes are expected in the chairmanships of the key business committees: Rep. Joel Hefley of Colorado would likely replace retiring Rep. Jan Meyers of Kansas as chairman of the Small Business Committee; and Sen. Jim M. Jeffords of Vermont, the heir apparent to the chairmanship of the Labor and Human Resources Committee, would take over from Sen. Nancy Kassebaum of Kansas, who is retiring from Congress.

—David Warner

LEGISLATION

Business Community Wins Some, Loses Some

Although it did not achieve all that the business community wanted, the 104th Congress recorded several major accomplishments important to entrepreneurs.

In 1994, when Republicans seized control of both houses of Congress for the first time since 1955, entrepreneurs hoped that most items on their legislative agenda would be enacted. But differences in



PHOTO: ©JOHN HARRINGTON—UNIPHOTO

Stepped-up efforts to curb illegal immigration across the U.S.-Mexican border are provided for in the fiscal 1997 spending law.

Republican and Democratic spending priorities doomed some items to presidential vetoes—most notably a GOP plan to balance the federal budget in seven years while cutting taxes by \$245 billion. Ideological differences resulted in vetoes of other business priorities, including legislation that would have capped awards for punitive damages in product-liability cases.

A prime example of the legislation on which the president and Republican congressional leaders were able to forge compromises in the past two years was the spending bill for fiscal 1997; it was passed just as lawmakers were leaving Washington in early October to campaign for re-election.

The spending measure is less ambitious

than the plan to balance the federal budget by 2002.

But its effect, when combined with the appropriations bills for just-completed fiscal 1996, will be a \$53 billion reduction in the spending over which Congress has year-to-year control.

Also included in the measure are provisions aimed at stemming illegal immigration into the United States. The provisions authorize more Border Patrol agents, better fences along the border with Mexico, and stiffer penalties against illegal aliens and those who aid them in entering the country.

A business-opposed provision missing from the final package would have imposed additional requirements on employers for verifying the eligibility of immigrants to legally work in the U.S.

In all, the continuing resolution "is a perfect example of what happened in this Congress," says

Thomas E. Mann, director of governmental studies at the Brookings Institution, a public-policy research organization in Washington. "There were grand ambitions with a distinct ideological edge and revolutionary rhetoric, ultimately producing something well short of the goal but nonetheless having an impact on policy."

Among the business-backed measures signed into law were a landmark welfare-reform law; the deregulation of the telephone and the cable and broadcast television industries; a measure empowering the president to veto line items in spending bills; market-based health-insurance reforms; and pension reforms to help small firms offer plans to their workers.

—Albert G. Holzinger

CAPITAL

Ex-Im Bank Debuts Loan-Guarantee Program

The Export-Import Bank of the United States has launched an experimental lending program designed to reach more small businesses and to shorten processing times.

The program is intended to supplement the agency's existing loan-guarantee program, which provides guaranteed working-capital loans to small and medium-sized U.S. exporters.

Under the one-year pilot program, the agency and its six state partners will jointly provide guarantees of 90 percent of working-capital loans up to \$2.2 million made by

commercial banks to firms in those states. For each loan, the Ex-Im Bank and the state each will assume 45 percent of the risk, and the remaining 10 percent will be borne by the commercial lender. The state partner will be authorized to approve the guarantee, thereby shaving at least two weeks off the approval process.

For more information, contact the export finance office of the partner states. The numbers are: California, (714) 562-5519; Florida, (305) 870-5027; Georgia, (404) 657-1958; Maryland, (410) 767-6392; Massachusetts, (617) 451-2477; and Minnesota, (612) 297-4658.

—Roberta Maynard

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Managing Your Small Business

Food for thought on finding work space; doing more with less time; tips on shopping for office furniture.

By Roberta Maynard

PARTNERING

A Recipe For Low-Cost Start-Up Facilities

Nora Christensen wanted to start a cooking school, but her \$2,500 in seed money wasn't enough to lease the space and buy the equipment she needed.

So the 37-year-old teacher-turned-entrepreneur came up with a work-space recipe: She struck an agreement with a company that gave her the use of a commercial kitchen in exchange for her meal-preparation skills; her part of the bargain caused her to put her cooking-school plans on the back burner—but only for a short time.

The arrangement developed when Christensen responded to a newspaper ad. Bodine Electric, a motor manufacturer in Chicago, was looking for a vendor to operate its employee cafeteria. She arranged with Bodine to use the company's kitchen facilities to make lunches and dinners for its 500 employees.

With the help of a cook and a dishwasher she hired, Christensen provided Bodine's employees with gourmet meals at a guaranteed price per entree that was about the same as the cost of a fast-food meal. In return, she got exclusive use of the kitchen rent-free when she was ready to open her cooking school.

After a year, she was able to open the school. Now three years old, the Cooking Academy of Chicago has 30 students. Under Christensen's supervision, they learn by preparing the meals for Bodine's employees. The academy also does catering for Bodine as well as for other local businesses.

Christensen says the arrangement with Bodine enables her to keep tuition to about half the amount that other area cooking schools charge. Her school has been profitable since its first month, and she has been able to upgrade equipment and to use an adjacent room to create a second kitchen.

Her advice to other companies with partnering arrangements is to maintain constant communication with their partner companies and to speak frequently to the direct beneficiaries of their services. In addition, she recommends the use of suggestion boxes and surveys to monitor customers' satisfaction. ■



PHOTO: ©ROARK JOHNSON

On the menu every day at Nora Christensen's Chicago cooking school is rent-free use of Bodine Electric's kitchen in exchange for gourmet meals for the employees.

BUSINESS ORGANIZATION

Should Your Firm Be An LLC? Consider The Pros And Cons

Operating as a limited-liability company (LLC) is an option not only for start-ups but also for companies that have been in business for some time. This type of business organization can provide tax benefits traditionally associated with business partnerships and the degree of liability protection afforded corporations.

Since a 1988 Internal Revenue Service ruling that opened the door to the LLC format, legislation permitting LLCs has been enacted in all states except Vermont and Hawaii.

The benefits of LLC organization include enabling all owners to manage and control a company without causing it to be subject to taxation as a corporation. Moreover, owners of an LLC, like shareholders of a corporation, generally are not responsible for the company's debts and obligations.

General and limited partnerships, corporations, and sole proprietorships can be converted to LLCs, according to *Starting A Limited Liability Company* (John Wiley & Sons, paperback, \$19.95). In their book, attorneys Martin M. Shenkman, Samuel Weiner, and Ivan Taback offer advice on setting up and maintaining an LLC.

First, the authors say, be certain that under your state's laws, your type of business or investment can be conducted by a company organized as an LLC. Then obtain the consent of the company's creditors, lenders, lessors, and other affected parties to avoid breaking any agreements.

The authors also say owners and investors should consider costs that may outweigh the benefits of operating as an LLC, particularly the tax consequences. Converting a partnership or a sole proprietorship to an LLC can usually be accomplished tax-free; conversion of a corporation to an LLC is usually a taxable event. ■

WORK FORCE

Tapping Employees' Insights To Expand Productivity

The challenge for Ron L. Rowe was making sometimes-boring work more interesting to his 150 mostly clerical employees while simultaneously improving productivity.

For J.W. Pepper & Son Inc., a sheet-music distributor in Paoli, Pa., business is cyclical. Workers pack and ship sheet music to schools and orchestras, with 70 percent of the year's business occurring in a couple of periods that add up to about four months.

During peak times, such as the weeks before each new school year, work was chaotic; during valleys, workers were bored. Sales were on the rise, but profits weren't. Crisis management prevailed.

When employees said in an anonymous survey that 30 to 50 percent of their time was wasted, Rowe, the company's president, decided to make changes. Bypassing supervisors, he met with 10 front-line employees over a brown-bag lunch once a week for a year. He had no idea at the outset how dramatic the changes would be.

The group came up with a plan that has developed over time: For the 29 weeks that are the slowest for his business, all employees work four 7.5-hour days and get paid for five; this is in addition to vacation days. During the other weeks, employees work five 7.5-hour days. Having 29 days off—still less than the wasted time reported in the survey—keeps employees from being bored and motivates them to work harder, Rowe says. The greatest boost in productivity came by involving them in solving work problems, he adds.

There is no paid sick leave. Employees who have to be absent for illness make arrangements to have their jobs done by co-workers. Rowe says the peer pressure has resulted in little absenteeism and an effort by workers to schedule personal appointments on their days off.

Schedules are devised to fit the work, not the traditional workday. In place of job descriptions, each person has an assigned skill level. Regular training in multiple tasks allows for the fluid movement of workers to departments where they are needed most.

"It made no sense to have six full-time people in the shipping department at 8:30

system began, profits have soared, turnover has been low, and productivity has risen dramatically. Instead of shipping within days of receiving an order during peak seasons, workers now ship within minutes.

Though exciting, the solutions to J.W. Pepper's work problems were secondary to a greater achievement, Rowe says. The real story is how he let go of the traditional

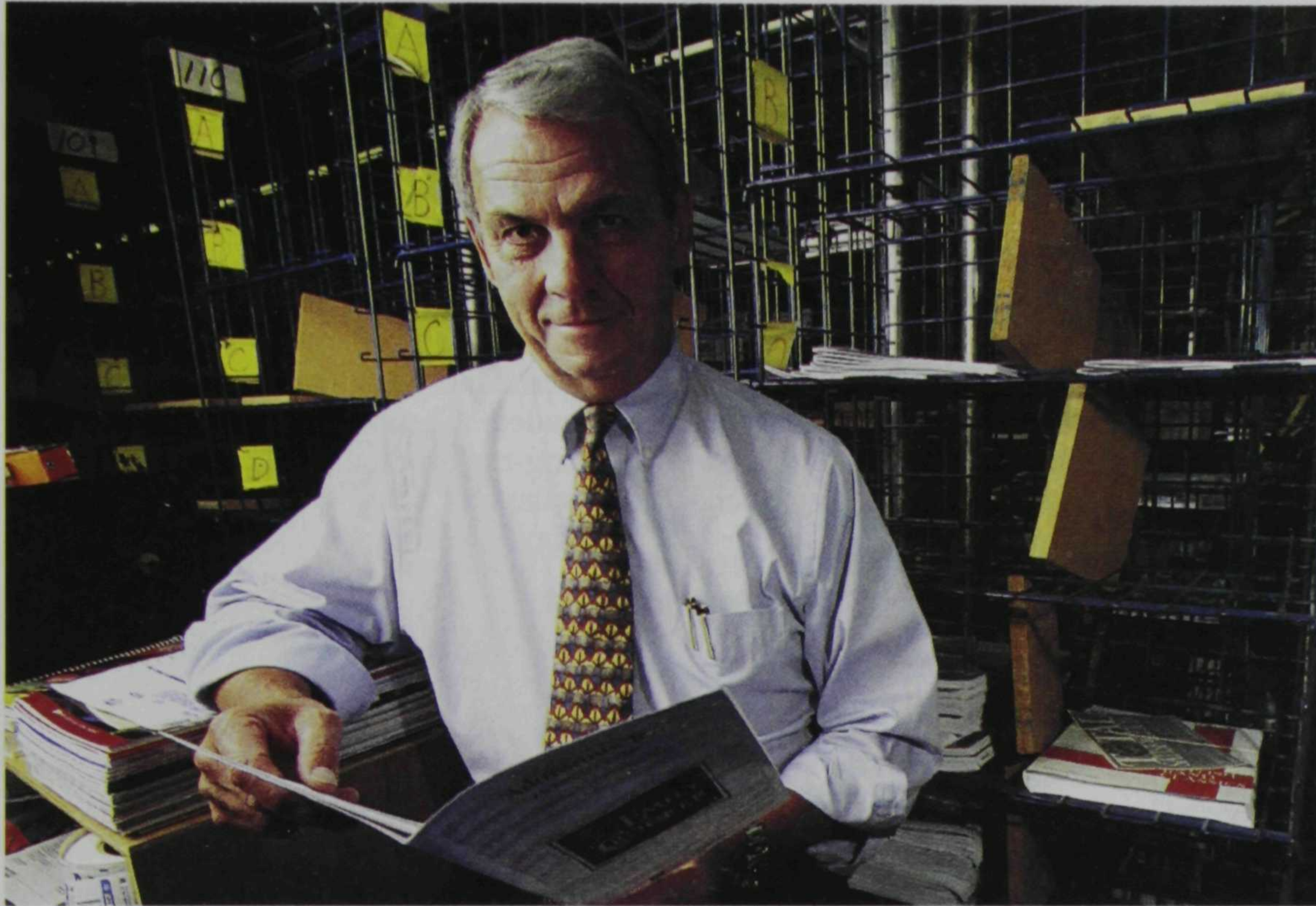


PHOTO: ©LEIF SKOOGFORS

Less became more at Ron Rowe's Philadelphia-area sheet-music distributorship when he cut employee hours—but not pay—and saw productivity increase.

a.m. when there was nothing to ship. It was also not right to have six there at 4 p.m. when we needed 20," says Rowe.

The breadth of training and the time off keep people interested in their work, he says. "I've seen people change their perspective from 'This is my job' to 'This is my company.'" In the six years since the

management style he had used for 22 years.

"I was the general. I had my sergeants' meeting every Friday morning. I went around with a clipboard checking the amount of Xerox paper we had. . . . Management 101 told us wrong," he says. "Most of us CEOs get in the way. Our job should be focused on bigger things.

"I'm not proposing our time allocation system to anyone. My message is to turn to the people doing the jobs. They create the solutions and buy into it. The fact of the matter is that if you want true quality, you can't rule it, dictate it, or policy it. It only happens when people are involved."

OFFICE FURNISHINGS

How To Prepare For A Buying Trip

Whether you're purchasing a single desk or furnishing a suite of offices, you'll find yourself more satisfied with the results if you take certain steps along the way, says Kenneth Beck, third-generation owner of Beck Office Furniture, in Mineola, N.Y. Here are Beck's tips for more-effective office-furniture shopping:

■ When you go to a showroom, take along a diagram that shows the important measurements, noting the locations of windows, whether the doors swing in or out, and other room features that dictate furniture arrangement.

■ Be prepared to give a ballpark budget amount and an idea of the style and quality of furniture you want.

■ Keep in mind your office color scheme. If possible, take samples of your carpet, wall coverings, and chair colors to help in selecting complementary pieces.

■ Focus on functional needs as well as appearance. When buying for employees, ask if they need overhead storage, keyboard drawers, or other features. That can head off complaints later.

■ Ask about services offered by the furniture company. Many dealers send employees to customers' offices to measure space and offer to lend them furniture until their purchases arrive. Delivery of items not in stock can take up to eight weeks.

In deciding when to place an order, says Beck, bear in mind that many factories close for a few weeks in the summer and that price increases usually come at the first of the year and at midyear.

NB TIP

Blue Chip Deadline Extended

The deadline for entries in the Blue Chip Enterprise Initiative program has been extended to Nov. 15. The program, sponsored by MassMutual—The Blue Chip Company, the U.S. Chamber of Commerce, and *Nation's Business*, honors small companies nationwide that have overcome adversity and emerged stronger. For more information or an application form, call 1-800-FOR-BCEI (1-800-367-2234).

NB

Making It

Growing businesses share their experiences in creating and marketing new products and services.

Taming A Rogue Sport

By Janet R. Beales

A ski-slope chairlift might be an unconventional place for a marketing meeting, but it helps Bev and Chris Sanders, founders of Avalanche Snowboards, Inc., stay on top of business.

"We snowboard a lot," says Bev Sanders, marketing vice president for Avalanche. "Every time we go, we learn what the market wants."

Shaped like a fat ski, a snowboard enables its rider to surf on snow. Though teenage boys latched on to snowboards at the outset in the early 1980s, women and younger children have taken up the activity.

While riding the chair, the Sanderses can note snowboard jumps and tricks that might inspire future snowboard designs. They talk with fellow snowboarders. The teenager next to them may wear a nose ring and shapeless pants, but he spends an average of \$500 for his snowboard equipment and represents the Sanderses' prime customer in a burgeoning market. Snowboarding has been the nation's fastest-growing winter sport the past five years, according to Ski Industries America, a trade group in McLean, Va. Snowboarders account for 14 percent of U.S. lift-ticket sales, says the National Ski Areas Association, in Denver.

The Sanderses founded Avalanche at Lake Tahoe, Calif., in 1982, when snowboarding was just getting off the ground. Chris built the boards by hand. Whenever they went "boarding" at local ski resorts, mesmerized kids would follow the pair back to their car to ask questions—and buy boards. "That's when I decided, 'Wow, this could be

an incredible business,'" says Bev. She persuaded Chris to quit his job as a building-materials manager to concentrate on Avalanche.

Today the company sells 20,000 snow-

boards annually, says Bev. But once the resorts relaxed their rules, demand for snowboards took off. Avalanche could produce only a handful of boards a week. "There was just no way we could carry on," she says. "Chris was working every night till 3 o'clock in the morning, up to his elbows in epoxy."

So in 1985, designs in hand, the couple went to Austria and got Pale Ski and Sport, a ski manufacturer in St. Stefan, to agree to make Avalanche boards. Elated, Chris and Bev eloped to a Greek island and were married.

A decade later, both partnerships are still going strong. Avalanche sells 20 different boards at retail prices ranging from about \$240 to over \$500; outlets are sporting-goods, ski, and snowboard shops. Each model is designed by Chris. Several of his innovations have become industry standards.

"The early boards that he



PHOTO: ©EDWARD CALDWELL

Off the ground with their snowboard company are Avalanche founders Bev and Chris Sanders.

boards annually in 13 countries. A spinoff company, Universal Bindings, annually produces and markets 40,000 pairs of snowboard bindings, plastic devices that attach a rider's boots to a board. The two companies, in Benicia, Calif., share 25 to 50 full-time employees, depending on the season.


At first, however, ski resorts, fearful of accidents, were cool to snowboarding—and its teenage, counterculture clientele. Persuading ski resorts to allow snowboards was



PHOTO: ©ROB GRACIE

was making were radically different from the stuff out there at the time. Subsequently, everybody conformed to some of those designs," says Daniel Boyce, owner of Performance Snowboarding, a mail-order snowboard company in Fairfield, Conn.

Avalanche caught the attention of Bob Edwards, an executive with a diversified



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MAKING IT

sporting-goods company. After failing to persuade his employer to buy Avalanche, Edwards left to join the Sanderses in 1994 as their company CEO and partner.

Sales of Avalanche and Universal products will reach \$5.1 million this year, double last year's figure. And Avalanche, the

12th-largest snowboard company, expects to increase its market share as the industry matures. "With 250 snowboard companies in the market, we're going to need power, some capital, because we know there's going to be a weeding out," says Bev.

An event in the 1998 Winter Olympics in

Japan, snowboarding is going mainstream and is promoted as a family activity. Says Bev Sanders: "It's no longer the outlaw sport that just appeals to teenagers." ■

Janet R. Beales is a free-lance writer in Walnut Creek, Calif.

Office Cruise Directors

By Cara Hersh

Mary Naylor has heard some odd requests over the years. One client wanted her company, Capitol Concierge, to track down pet food for a tarantula. Another insisted that Naylor's service locate an obscure hot sauce made in Texas. One couple even asked Naylor to arrange their wedding in the Caribbean.

Capitol Concierge, a Washington, D.C., company, provides services to "time-pressed, time-starved professionals—busy people," explains Naylor. While a concierge at a hotel might book guests on bus tours and make restaurant reservations, Naylor's concierges have very different duties. She hires, trains, and places concierges for office buildings. Her employees arrange catered lunches for tenants, drop off their dry cleaning, and order tickets of all kinds for them.

In fact, no request is too far-fetched, according to the company's motto, "Consider it done." Naylor's concierges also develop a sense of community in their buildings by working with building managers to arrange events such as ice-cream socials. Naylor likens her employees to "cruise directors in an office building."

In the early days of Capitol Concierge, Naylor, now 33, was the sole employee. "I delivered tickets, took back videos, ran errands. You name it ... I did it," she remembers. The company now has about 100 employees and operates in 78 buildings in the Washington area.

The inspiration for creating the company struck Naylor at 17,000 feet. While on a plane, she read a magazine article about a California concierge company. Back on the ground, Naylor, then 24, moved back home to Washington to live with her mother, from whom she borrowed \$2,000 to start Capitol Concierge in 1987. It took her eight months to find her first client; most companies liked her idea but didn't want to be the first to use

her services. Finally, the John Akridge Cos., a regional commercial-real-estate company, took a chance on Capitol Concierge, and Naylor was in business.

Capitol Concierge now has annual revenues of \$5.1 million. Property managers pay a monthly fee; tenants pay only for their purchases. Contracted service providers, such as caterers and florists, pay Capitol

asking them what factors affected their decision. She says the managers often are surprised to receive the survey but usually fill it out. The responses help her in general planning and in presentations to her advisory board, a volunteer group of CEOs she pulled together to help her look at strategic issues. The survey even helped win over one client who initially turned down Capitol Concierge.

Finally, Naylor attributes the company's success to its growth plan. Instead of merely trying to increase the number of customers, Naylor strives to increase business with existing customers.



PHOTO: ©KEN TOUCHTON

The concierge service owned by Mary Naylor, left, helps its office-building clients with everything from picking up their dry cleaning to sending flowers. On the phone: concierge Debby Urban.

Concierge a percentage of their gross sales.

Naylor no longer has to drop off clients' dry cleaning herself. Instead, she has excelled at running Capitol Concierge and ensuring its success. After recognizing that some of her employees were performing poorly, for example, she heeded some advice from a job trainer: "No amount of training makes a bad hire right." That inspired her to funnel money into recruiting and hiring rather than into training.

Naylor also sends a lost-bid survey—a tool she created—to property managers who chose not to use Capital Concierge,

Over the past two years, Capitol Concierge has developed a software program that anticipates clients' needs. If, for example, a tenant orders flowers for a friend's birthday, Capitol Concierge will send a reminder of the date a year later and ask if another order should be placed. The program also includes clients' personal data so particular services can be offered to them.

Maybe even finding dinner for a spider. ■

Cara Hersh is a senior English major at Haverford College, in Haverford, Pa.



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MAKING IT

Going Back To School

By Lana J. Chandler

When John K. Burdette II went to work for a school-supplies store during his senior year in high school, his goals were to make some money and spend less time attending classes. Today, Burdette, 22, heads a South Charleston, W.Va., company called School Days and is his former employer's main competitor.

"I knew there was always going to be a market for educational products, whether it's government money or from parents, day-cares, or churches," says Burdette. "But I needed a competitive edge to get people's attention and keep them coming back."

Remembering some customers' complaints about congested aisles, inconvenient hours, long delays on special orders, and lack of parking, Burdette concluded that customer convenience and service would be fundamental to competing successfully with the company where he had worked.

Entrepreneurship isn't a new role for Burdette. At 14, when his family lived in Spartanburg, S.C., he opened a baseball-card store in a local shopping center. For two years, he operated it after school and on weekends. When his family moved to West Virginia, he sold the business for \$15,000.

Profits from the sale helped finance the initial legwork for School Days. Burdette was attending West Virginia University in Morgantown when he started seriously researching the school-supplies business. His greatest challenge was getting adequate financing.

"We always have difficulty going to the bank," Burdette says. "I don't own a house to secure the loans. The business is so new that unless you have some sort of hard asset to back a loan, it's just not easy

getting financing for at least the first three or four years."

His parents' cash investment of \$30,000 in exchange for stock in the company helped get Burdette a \$75,000 West Virginia Capital Access Loan under a program designed to help small businesses. School Days was launched in August 1994. "It took \$105,000 just to get the doors open," he says.



PHOTO: ©GARY TRUMAN

Only 22 years old, John Burdette is making a success of his South Charleston, W.Va., school-supplies company. At 14, he ran his own baseball-card store.

Before long, the business needed to borrow an additional \$75,000. Burdette finally obtained a loan guaranteed by the Small Business Administration, although his company almost went under, he says, because of delays in processing his application.

"We were starving for cash," he says. "The business was new, and supplier credit wasn't there. We lost a lot of sales because we had to keep such a lean inventory." Burdette has since sold additional stock to "a handful of other investors" but has retained the largest block of shares.

Today the company has three full-time

employees and eight part-timers. Occupying 3,750 square feet, the store caters to retail customers but sells at wholesale to school districts, offering a full range of educational products, including workbooks, games, tapes, CD-ROMs, puzzles, books, electronic learning aids, and art supplies. Burdette won't release sales figures, but he says the company is growing over 50 percent faster than last year. Recently, he opened a second store, in Beckley, W.Va.

The company purchased a van in late 1995 for making deliveries and calling on accounts. Before the Beckley store opened, Burdette used the van on weekends to transport supplies to a temporary location

in the plaza now housing the store. Plans now include testing other markets by setting up temporary locations.

Burdette attributes his success to "putting customers' needs" first. Both stores are in heavily trafficked strip malls. Rent isn't cheap, but Burdette maintains that it's worth the expense. Customers have plenty of free parking. The stores stay open until 8 every evening except Sunday to meet the needs of teachers and working parents.

Burdette uses shelving that is primarily designed for music stores. Not as high as standard retail shelving, it gives the store an open and airy feeling, and the deep bins make it easy for people to flip through books. The aisles are wide enough to let customers—typically children—sit on the floor while perusing materials. School Days also offers customers a free 400-page catalog listing sev-

eral thousand products that can be specially ordered if they are not available in the store.

Burdette insists it's important to keep in touch with customers and know their needs. "We have mailing-list forms that ask our customers if they're parents, teachers, students; what grade level . . . those types of things," he says. "This way, we can get a good handle on who our customers really are." In return for filling out a form, School Days' customers receive a discount coupon for their next purchase.

One thing Burdette is sure of: "The better we know our customers, the better we can serve them."

Lana J. Chandler is a free-lance writer in Charleston, W.Va.

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COVER STORY

Cashing In On Trade Shows

By Dale D. Buss



PHOTO: ©RICHARD HOWARD

With a product that must be felt to be completely appreciated, the partners in HandsOnToys, Inc.—from left, Rustam Booz, Arthur Ganson, and Andrew Farrar—increased exposure for their Toobers & Zots toys by displaying them at a trade show.

Small firms are using exhibitions to boost sales, spot trends, and check out the competition.



Trade Shows: Growth Projections

	Number Of Shows	Number Of Attendees (In Millions)	Number Of Exhibiting Companies (In Millions)
1996	4,400	101	1.25
1997	4,492	109	1.26
1998	4,587	118	1.27
1999	4,683	129	1.28
2000	4,781	140	1.30

SOURCE: CENTER FOR EXHIBITION INDUSTRY RESEARCH

CHART AND ILLUSTRATIONS: MICHAEL ROOK

Andrew Farrar, Rustam Booz, and Arthur Ganson quit their jobs in 1993 to launch HandsOnToys, Inc. The Woburn, Mass., company makes Toobers & Zots—bendable, foam-covered construction toys that Ganson designed. As the company penetrated specialty-toy retail outlets in the Northeast, sales the following year reached about \$250,000.

Then the partners placed a high-stakes bet that they believed would either propel the company to higher levels of growth and profits or send it down the road to ruin.

HandsOnToys set out to increase exposure for Toobers & Zots by participating in the International Toy Fair, the biggest trade show in the industry, in New York City in February 1995. They budgeted \$25,000—a huge bet for a very small company—for the effort.

A sales company representing HandsOnToys and other firms saw potential in Toobers & Zots and decided to lend the partners an 8-by-10-foot space in the giant Jacob Javits Convention Center. The partners built a simple booth and handed out as much product as they could.

They replenished supplies in a bucket-brigade fashion by parking a large truck up the street, carting the toy components to the exhibition center, and stuffing them into a coat closet until they were needed in the booth.

"The product is highly tactile: Once you feel it, you like it and understand it," says Farrar, the firm's president. "We chose the giveaway approach because we wanted to get as many buyers as possible to touch our product."

Just an hour after the trade show

opened its doors, a relieved Farrar knew his company had a hit. For the following three days, he says, HandsOnToys had "20 people in our booth continuously" as toy buyers "played on the floor like kids."

At the show, the company wrote orders for Toobers & Zots totaling a six-figure sum, adding momentum to the company's 1995 sales, which eventually reached \$3.3 million.

Thanks to the buzz created by its International Toy Fair appearance, the company also landed a deal to manufacture Toobers & Zots under license for Hasbro Toys and, says Farrar, expects sales this year to exceed \$6 million.

Not every trade-show appearance produces such dramatic results, of course. But shows have become crucial ingredients in the marketing mix for an increasing number of small companies.

Such exhibitions offer a cost-effective venue for a company to display its wares to top prospects, who sometimes include overseas buyers who would be difficult to reach otherwise. Company managers can also get updated on the market and the competition. A trade show enables a com-

pany to control its image, product presentation, and sales approach.

These are no doubt among the reasons why the North American exhibition industry has been growing for nearly a decade. According to the Center for Exhibition Industry Research (CEIR), an industry association based in Bethesda, Md., outside Washington, the number of shows in the United States and Canada grew from nearly 3,300 in 1989 to

more than 4,300 in 1995.

During the same period, the number of exhibiting companies grew by 30 percent, to 1.3 million, and trade-show attendance nearly doubled, to 116 million.

The industry's growth is expected to flatten this year, the CEIR says, with attendance actually projected to drop 15 percent below last year's level. The reasons, say trade-show experts, include continued consolidation and cost streamlining among the 1,000 largest companies, which account for the bulk of trade-show attendance, and the rising costs of participating in trade shows.

Some analysts believe a long-term decline is in store for the trade-show business because of those and other factors—such as the onset of "virtual" trade shows, where participating companies purchase "space" on a World Wide Web site set up strictly for putting on the show.

But exhibition-industry executives maintain that the industry only hiccuped this year because it became "venue-bound," meaning there simply wasn't enough space to handle further growth in show activity.

With convention-center space projected to expand by 12 percent—to nearly 71 million square feet—by the year 2000, the

COVER STORY

industry will be free to resume its strong expansion beginning in 1997, says CEIR spokeswoman Courtney Chamberlain. In fact, the association is looking for attendance to grow to 140 million in 2000 from this year's 101 million, and it forecasts that more than 500 new shows will be launched by then.

To many small-business owners, the debate over the industry's trend is just background noise. While there are no specific statistics to back up their contention, many in the industry believe that the use of trade-show marketing by small companies is outpacing the growth of the use of shows by larger companies.

Independent concerns are increasingly using exhibitions to recruit customers, introduce new products, and penetrate new market niches. In some instances, they even use trade shows to get their firms off the ground or stimulate

large-scale growth, as did Stonewall Kitchens Ltd., a gourmet-condiments maker in York, Maine.

Stonewall had been in business

for five years before taking part in its first trade show. Jonathan King and Jim Stott, the two friends who founded the firm, targeted last year's International Fancy Food and Confection Show, in New

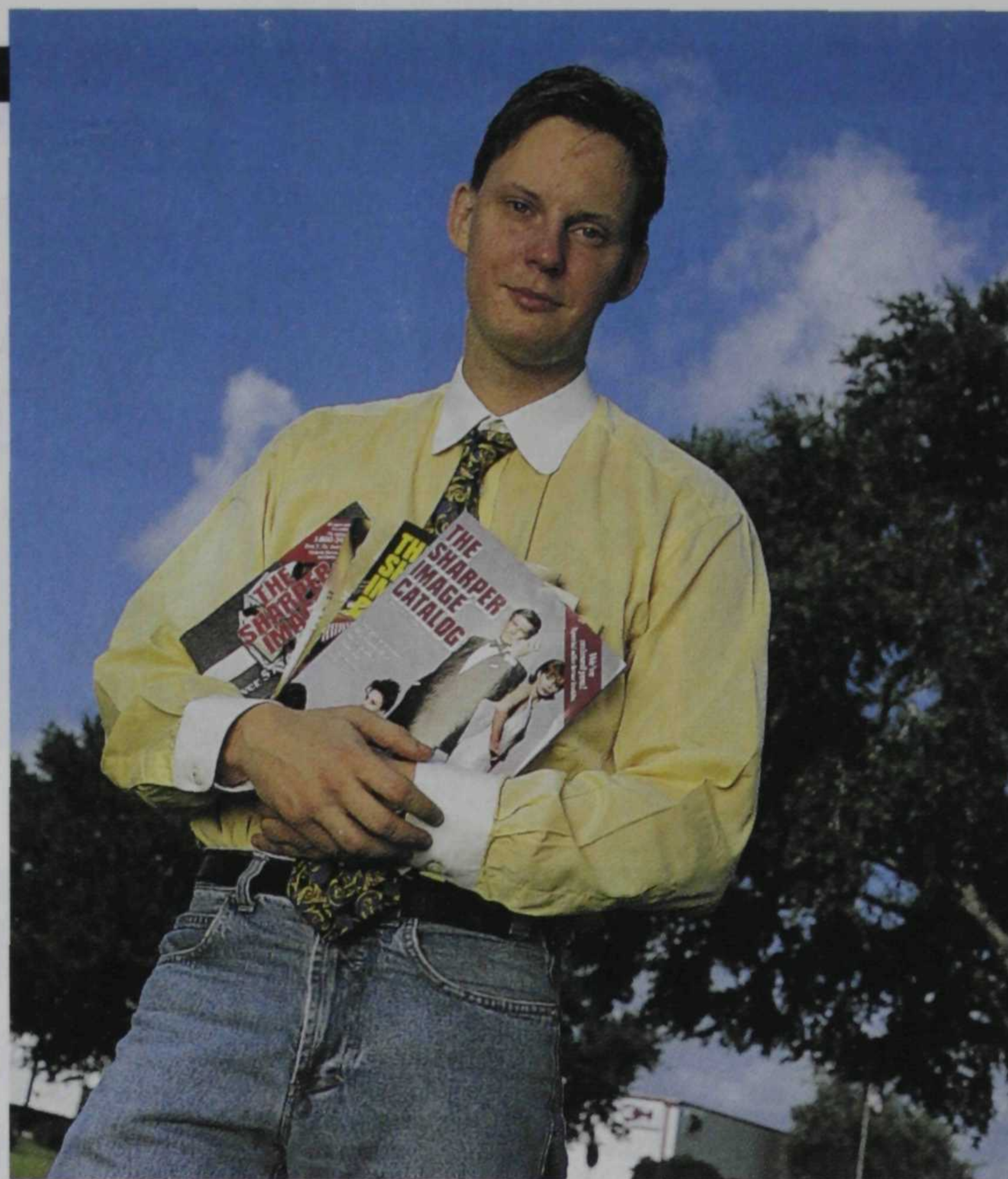


PHOTO: ©BEN VAN HOOK

A trade show helped Axel Ruehlemann get two of his firm's products into The Sharper Image catalogs.

York City. Essentially, they leveraged the company on expectations that a flood of orders for their jams, mustards, and vinegars would follow their appearance at the show and that the company would take off.

First, Stonewall made a special effort to educate a national trade group about the firm's products and won the group's endorsement as the "most outstanding product line" at the prestigious show. King and Stott hoped gourmet-food buyers attending from upscale chains such as Marshall

Field's and Neiman Marcus would note the distinguished accolade.

Before the show, Stonewall nearly tripled the size of its kitchens, to 10,000 square feet, and purchased new steam kettles and automated equipment. The company's expenses for the trade show included several thousand dollars for a 10-by-20-foot booth constructed of wainscoted wood and dressed with antiques that they shipped in for the occasion.

The gamble paid off: Rave reviews from show attendees greeted the company's products, and Stonewall landed more than \$85,000 in orders and some big new national accounts on the spot.

The partners boosted employment to 25 from 12, obtained a \$250,000 loan, and added even more equipment, which gave them the capacity to produce in just 64 hours the same quantity of goods that it used to take over a year to manufacture. Sales exploded to more than \$2 million last year, and

the partners expect them to double again this year.

"Attending that show helped us reach markets that were just impossible for us to reach from here in York, Maine," King says. "We couldn't possibly see that many people or send out that many samples."

Of all the marketing methods available, many small companies such as HandsOnToys and Stonewall Kitchens are zeroing in on trade-show participation because it offers them a number of advantages. Among them:

Attention Grabbers

The typical passer-by takes no longer than 10 seconds to decide whether to stop at a trade-show booth, so the person has to be engaged quickly. Here are some ideas for getting show-goers to stop at your exhibit:

High-Tech Attractions

The state of the art in making a quick impact these days is virtual reality. Experienced trade-show attendees have become used to seeing a sprinkling of booths where they can don the special masks that whisk them into digitally created fantasy worlds.

The question for most small companies considering virtual reality for their exhibits is whether it's affordable. It costs \$15,000, for example, for Ham on Rye Technologies Inc., of St. Louis, to take a

company's existing brochure or video and create an interactive virtual-reality game of three to 10 minutes that requires players to learn the exhibitor's spiel in detail.

Ham on Rye provides the program and accompanying rights to its re-use, plus an emcee for a two- or three-day show, and all the necessary equipment, including keyboards and head-mounted displays.

The program might take participants on a virtual roller-coaster ride, say, or on a journey through a human organ. "It's 'edutainment,'" says Susan Sprout, Ham on Rye's managing partner. "To win the game, they have to learn the marketing message of the company. It produces incredible levels of recall."

Another high-tech but less expensive

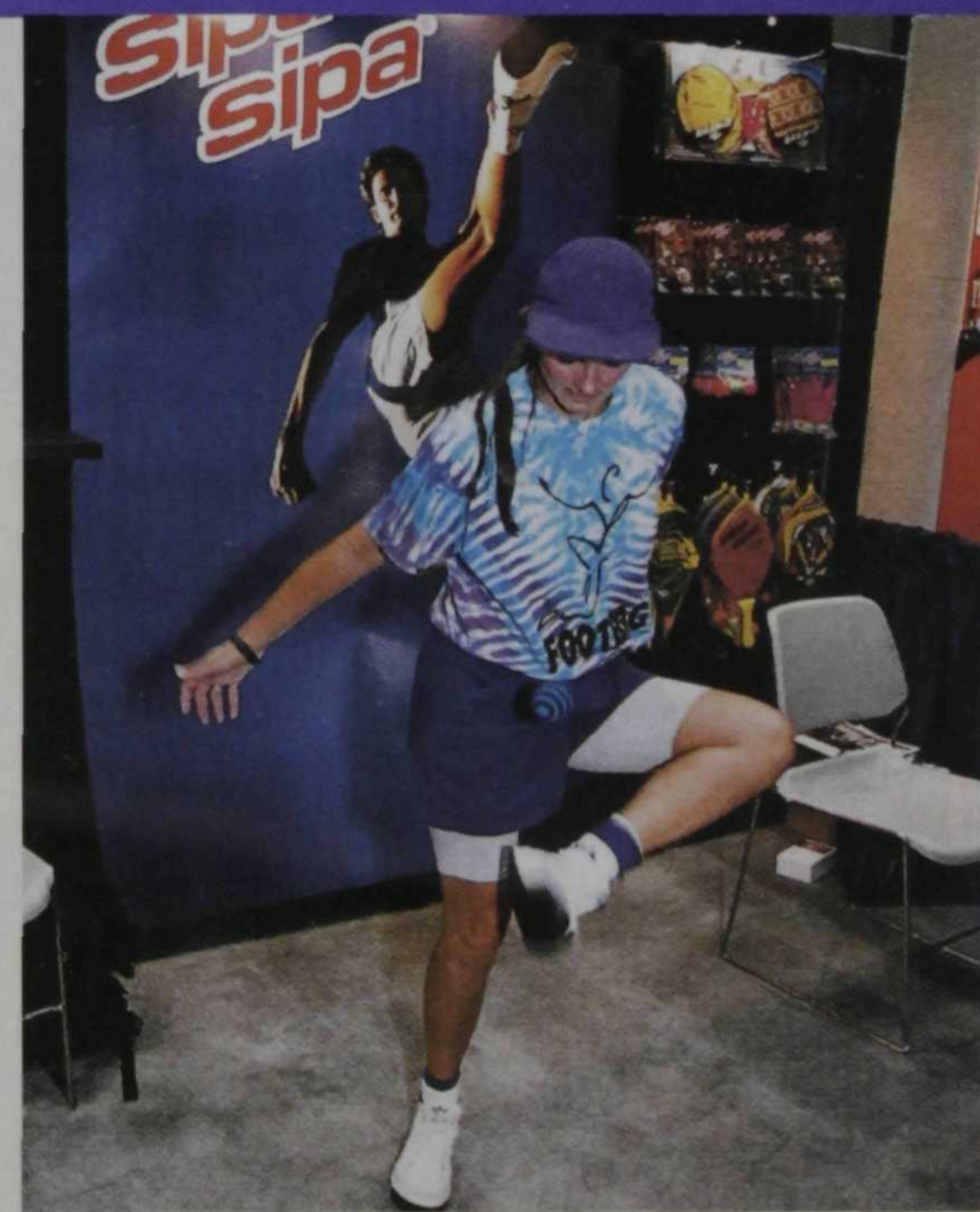


PHOTO: T. MICHAEL KEZA

The fun of Sipa Sipa Inc.'s footbags is demonstrated at a show by Valeria Davidson, an expert in the sport.

Cost-Effectiveness

While participation costs are rising, the average "cost per visitor reached" at a trade show is still competitive. It was \$185 in a 1991 study by Exhibit Surveys Inc., an industry-research firm headquartered in Red Bank, N.J. By comparison, the average cost of a personal sales call in 1992 was \$292, according to a survey that year by *Advertising Research Reports*, from Cahners Publishing, in Newton, Mass. Both surveys were conducted for the CEIR.

Another plus is that while it generally takes only a letter or a telephone call to close a qualified sales lead from a trade show, closing a deal through personal sales calls typically requires multiple visits with the customer.

According to Exhibit Surveys, about 63 percent of visitors at trade shows last year planned to buy one or more of the products exhibited at a show within 12 months. "The trend clearly is even more toward serious purchasing discussions going on at trade shows," says Mick Parrot, president and owner of Icon Inc., a Fort Wayne, Ind., trade-show consultant.

What's more, the shows continue to attract people with the authority to make or influence purchases. Last year, according to Exhibit Surveys, 87 percent of attendees had the final say on purchasing products and services exhibited at a show, or at least had the authority to make purchasing recommendations. That figure was up from 84 percent in 1991.



PHOTO: T. MICHAEL KEZA

Innovative products like the Dynogripper hand exerciser marketed by Marc Mauseth, left, and Steve Gootter are what trade-show attendees look for.

Access To Golden Prospects

Trade shows may be the best way to network with suppliers and customers, both existing and potential. Paradigm Products Inc., a Murray, Utah, company that employs 17 people, exhibits at about a half-dozen trade shows a year plying its line of bicycle pumps, such as a unique device that combines a pump with a lock and retails for \$20 or more.

"It's great to be able to come here and talk with independent bike dealers where

they're bunched up like bananas—600 to 800 of them come through here," said Dean LaGrave, Paradigm's marketing manager, as he worked the crowd at the National Sporting Goods Association (NSGA) show in Chicago. "To do it strictly over the phone and fax isn't even close to getting belly-to-belly with people and showing them what we have."

"I had a guy from Sears here this morning who spent 20 minutes with me. There would be no other way of getting that much time with someone like that."

For small-company owners, trade shows often are the only places where they can hope to attract people from major discounters like Wal-Mart and Kmart, dominant category retailers like Walgreens and Staples, and national mail-order houses such as L.L. Bean and Brookstone.

Axel Ruehleemann, for example, says that he pursued executives of The Sharper Image for over a year, trying to

have his firm's products included in The Sharper Image catalogs. His firm, K&R Instruments, Inc., based in Orlando, Fla., manufactures pedometers, stopwatches, and other measuring instruments.

Ruehleemann barely got a response from The Sharper Image, but last year he



interactive idea displayed at the annual Exhibit Industry Conference & Exhibition—the trade show for trade shows—in Chicago in July was a system by Color Concepts & Images, a company in Incline Village, Nev. Gary Jesch, the executive producer, sat behind a screen with his head wired up like a cyberkinetic Wizard of Oz as he scanned the ID tags of passers-by. Then he addressed them by name via an animated figure that was projected onto a 6-foot-square video screen at the front of the booth. At that point, the exhibitor had the opening to make a pitch to an engaged audience.

The Human Touch

If technology isn't the right approach, human beings may do the trick. Anton Zellman, owner of Zellman Productions, in Canton, Ga., is available for hire to conduct memory-boosting sessions for show-goers. He uses information about

an exhibitor's product or service as raw material for his show.

"Corporate illusionist" Wayne Alan will create and continuously perform a magic show that centers on a special illusion that he creates just to show off the attributes of an exhibitor's product or service. For example, at one show he "levitated" a computer-component manufacturer's device to show how light it was. Price: \$10,000 a day.

Simple live demonstrations of a product or service still intrigue even the most jaded show-goer. For example, at a recent trade show, Ray Ferris chatted with passers-by as an assistant demonstrated the fun of playing with the small footbags produced by Ferris's Torrance, Calif., company, Sipa Sipa Inc. "It works because buyers don't have the time to just stand there," Ferris said. "This demonstration makes our product line easy to understand at a glance."

Famous Faces

Celebrities are another lure, and they're reliable traffic builders. But they're expensive: Expect to pay about \$5,000 a day for a soap-opera star and up to \$50,000 for a prime-time TV figure, according to Jonathan Holiff, president of American Celebrity Brokers Inc., in Studio City, Calif.

It's also difficult to get a solid commitment from celebrities because they won't let trade-show gigs interfere with a movie shoot or a playoff game, for example.

But Holiff suggests that nabbing celebrities in the cities where they live is easier and less expensive than getting them to appear elsewhere on your company's behalf. Finding out a celebrity's personal interests is one way to determine whether a personality might be an effective match for your company's product or service.

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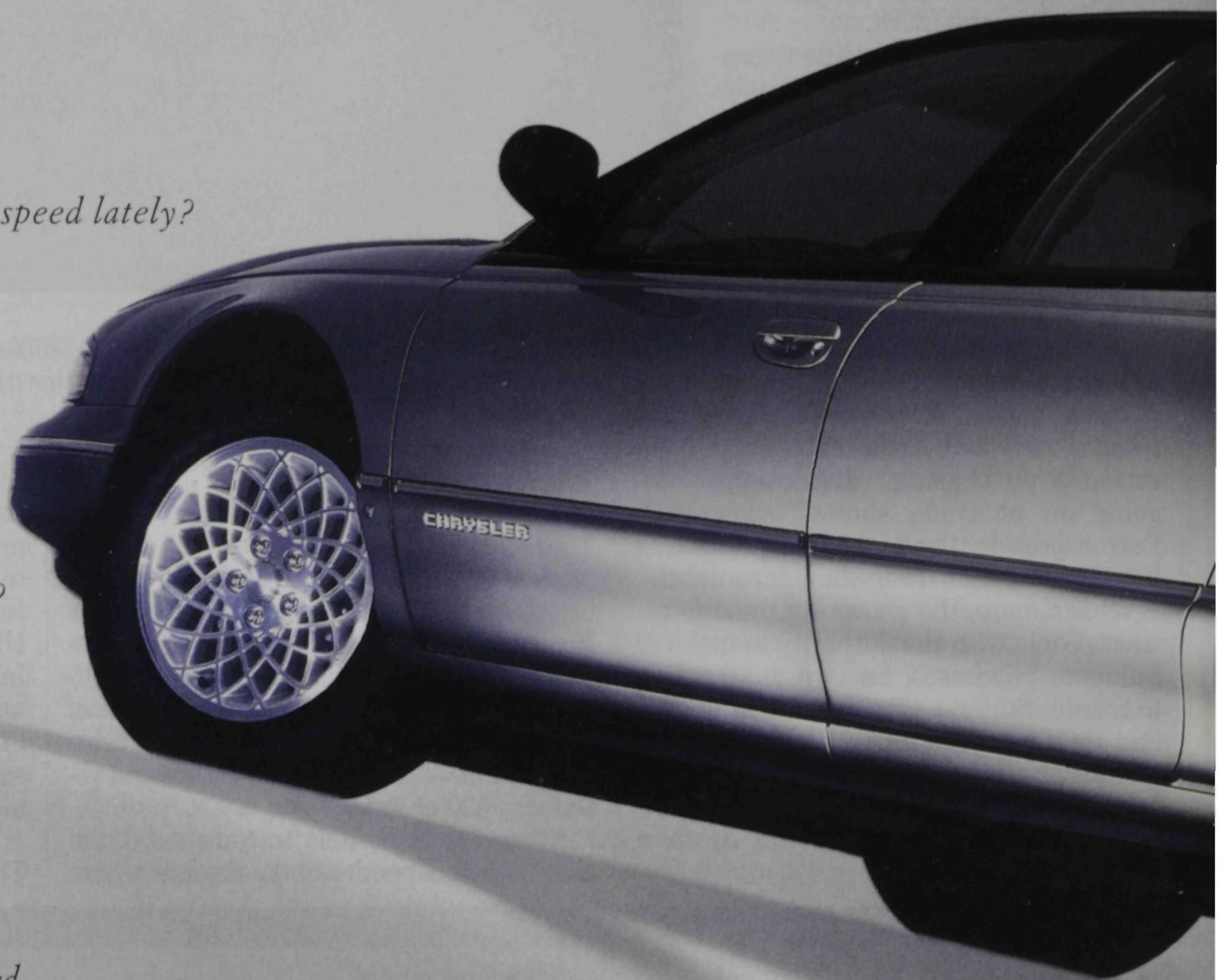
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tracked down Richard Thalmeier, the company's founder and president, at the NSGA show.

As a direct result of that contact, K&R's solar-powered N-ergetic Fitness Monitor, a pedometer that calculates calories burned while its wearer is working out, appeared in The Sharper Image's catalog last January.

And in the April catalog was another K&R product, a map- and chart-measuring device for hikers, architects, and others.

"All because I was able to bump into [Thalmeier], my sales volume has picked up considerably," Ruehleemann says. "And now buyers from other stores and catalogs, who have seen our products in The Sharper Image, are calling, too."

A Glimpse Of The Big Picture

Many small-business owners say trade-show participation enables them to stay on top of industry trends—and what their competition is up to—better than any other venue. They can size up the whole market with just one trip around the floor of an exhibition hall.

That's one reason Thom Wilder, president of Mission Control Roller Hockey, in Santa Ana, Calif., spent about \$100,000 to appear at the NSGA show. Wilder, whose company makes in-line skates and components, reserved a 20-by-30-foot space, put up an intriguing two-story display, and even sponsored live roller-hockey games in a nearby demonstration area.

"For the U.S. in-line-skating industry, this is the premier show, and you have to have a presence here," says Wilder, whose company essentially debuted at the NSGA show a year earlier. Dozens of competitors evidently agreed with Wilder's assessment, judging by the massive piece of real estate they occupied at this year's show.

A Receptive Climate For New Products

There's no better place to introduce a new product or a new company, say trade-show aficionados, because the innovative and different are what attendees come to see.

That's what Marc Mauseth and Steve Gootter were counting on in July when they brought their display and boxes full of their product with them to the NSGA show.

They used the show to introduce a complete line—all the varied densities and sizes—of their Dynogripper flexible-plastic



PHOTO: ©RICHARD HOWARD

Regional podiatry shows enable Tom Stone to get a foot in the door for his firm's line of medicated powders.

hand exercisers. The partners had been selling the devices primarily to medical-rehabilitation markets but believed that the trade show would help their company, Journey International Inc., based in Tucson, Ariz., reach the mass market for exercise devices.

In fact, the duo ended up booking "lots of mom-and-pop orders" and "having some very serious conversations with some major players, like Brookstone, Wal-Mart, and ShopKo," Mauseth says. "You know you're on to something when senior buyers from big-time organizations like that spend 20 minutes talking with you."

An International Audience

Journey International was among the many small companies that discovered

that trade shows are often teeming with representatives of foreign companies, who turn many major exhibitions in this country into global bazaars.

Making the right contacts can lead to a company's first export sale years in advance of when it otherwise might occur. "We talked with buyers from Colombia, Japan, and several other countries," says Mauseth.

"I can't even imagine the incredible expense it would be for us to travel to

Japan to try to find the right people to talk with," he says.

One reason international buyers flock to trade shows is that such shows are an even more popular marketing venue abroad than they are in the United States. Icon's Parrot says that exhibitions typically constitute about 25 percent of the marketing budget of foreign companies, compared with an average of about 5 percent for U.S. companies.

Although there are lots of advantages to trade shows, here are some suggestions on how to increase your odds of success:

Pick Your Spots

Choosing the right shows, like deciding on any other major expenditure, requires research. Small-business owners should study trade-show statistics carefully, focusing on the number and quality of attendees and the show's per-attendee cost. Some experts recommend avoiding first-time shows to see how they fare initially.

"More and more shows are cropping up trying to piggyback on the success of some pre-existing show," says Ray Hanobik, owner of Hanobik Communications, a Pittsburgh firm that counsels companies on trade shows and other marketing methods. "So if you go through a trade-show directory and see 1,000 shows this year, only about 40 percent of them are worth even considering."

It's a good idea to visit a show before committing to participate; each has a particular feel and culture that may or may not match a small exhibitor's approach.

The bigger the exhibition, the larger the potential galvanizing effects on a business, of course. But bigger isn't always better. David Schultz, for example, founder of Kinetic Design Group, in Kirkland, Wash., had to learn the hard way the past two years that displaying at the annual sporting-goods Super Show in Atlanta was just too overwhelming for his three-person company, which custom-designs athletic equipment.

The massive event attracts thousands of exhibitors and tens of thousands of attendees and is the industry's major crossroads. But its scale was just too large, and Kinetic got lost in the crowd.

"That show just didn't function well for us," Schultz says now. "The key people we needed to meet either weren't at the show or were tied up in meetings with bigger companies. We know now that any show we go to has to be of the proper scale."



For Small Firms, A Really Big Show



PHOTO: T. MICHAEL KEZA

The sheer size of major industry trade shows like the Imprinted Sportswear Show, at Chicago's McCormick Place, can be overwhelming, but the events have become obligatory for many small-company owners.

Like most major industry trade shows, the National Sporting Goods Association World Sports Expo leaves exhibitors and attendees alike with a bit of an intelligence hangover: There's so much information and so many impressions that it takes awhile to sort them out.

But that's exactly why the NSGA show in Chicago each July—and an even larger annual expo in Atlanta—have become must-go events for so many small-company owners in the sporting-goods business.

Occupying most of the sprawling McCormick Place along the Lake Michigan waterfront for three days, the NSGA expo this past July covered 18 product categories; the smaller Imprinted Sportswear Show took place under the same roof at the same time.

The NSGA also hosted an export-sales forum, career seminars, press conferences by major sporting-goods retailers, a karate demonstration, and even a breakfast where Bill Cosby regaled the crowd.

Yet the show's more than 90,000 visitors from 66 countries were there primarily to comb the endless aisles of displays, to meet and be met, to log orders,

and to recalibrate their corporate strategies based on what they saw, experienced, and noted in the margins of the 400-page expo manual.

Major companies such as Wilson Sporting Goods Co. and Reebok International Ltd. dominate the show-scape with huge, multiple-story displays, legions of attendants, and even receptionists. But amid the behemoths, hundreds of small companies are getting their jobs done, too.

Gear Roller Hockey, a small manufacturer of in-line skating equipment, in Tempe, Ariz., chose this forum to launch a new brand: Chandler. Gear rendered its display in an antique-garage motif, complete with a smattering of automobile carcasses and a covering of peanut shells on the floor.

"We wanted to do something with personality and attitude," said Greg Sorenson, chief operating officer and co-owner. "Some retailers come here ready to buy. If you've done your homework and have the right incentives and have the product ready, you'll get orders."

A few hundred feet away, Steve Gootter, president of Journey International Inc., was repeating his

sales line for the umpteenth time that day: "A ball is meant to be hit with a racket, and an egg is for omelets." When passers-by stopped, he handed them one of the company's Dynogripper exercise devices—which, yes, are meant to be squeezed.

At a small display, a Toronto-based firm called Night Hoop was showing off a nifty device that lights a basketball rim for nocturnal play. The stakes for Night Hoop were high. After two years in business, the company was putting on its first trade-show exhibit, and it had invested more than \$70,000 in the NSGA appearance, sales literature, and product inventory that it had manufactured to fulfill hoped-for orders from the show.

By the last day of the expo, Gerald Pettie, Night Hoop's president, was breathing easier. He had nabbed several orders, including one for 8,000 of the incandescent, fiber-optic hoops, which he retails for under \$30.

While not all small-company exhibitors would find the show as worthwhile as Pettie did, there were others as enthusiastic as he was. "The response," he concluded happily, "has been phenomenal."

COVER STORY

Consider A Regional Or Local Show

An increasingly popular alternative to attending full-blown extravaganzas is for small companies to take in less-expensive regional or niche-market shows. Another option is to try out a pitch initially at open-to-the-public expos where a company can gauge responses to its products and services from consumers.

Bill Hancher reserves about 25 percent of his marketing budget for a loop of five annual regional consumer home shows in Indiana where his Fort Wayne company, Sun Control Center, shows off its line of 3M-made window films for commercial, residential, and automotive applications.

"We get to talk to the people direct at these things," says Hancher. "And I've never seen any of my competition at these shows. I hope they're missing a bet."

For Tom Stone's company, Denison Pharmaceuticals, Inc., of Pawtucket, R.I., regional shows are key to meeting marketing objectives at an affordable cost. Stone has begun attending as many as a dozen podiatry conventions and exhibitions a year to promote the company's Sana Balm foot powders.

"Often these shows have special guests from outside the region," says the co-owner of family-owned Denison. And when doctors take samples of Sana Balm home for their patients, he says, "that can give us entry into another region of the country. To try to make sales calls on 200 doctors in each region would be cost-prohibitive."

Soften Up The Market

Optimizing a trade-show investment means small companies should do their best before the event to make sure they'll encounter a receptive market.

Effective pre-show marketing tactics can include faxes to customers and potential clients or even simple envelope stuffers that can be sent out with each invoice or other piece of correspondence.

Personalized notes or phone calls to major clients can be powerful tools as well, particularly if they come from the company owner or president.

To local prospects that probably are going to visit the show anyway, some companies send half of a premium or gift when inviting them to their exhibit, says trade-show consultant Parrot—and award the other half at their booth.

Set Multiple Goals

Small companies can easily use trade-show trips for more than one aim. Some, for example, combine major sales meet-



PHOTO: T. MICHAEL KEZA

An antique-garage motif lends personality to a display of Greg Sorenson's in-line-skating company.

ings with big industry exhibitions. James Smith, owner and president of Tide Rider Inc., meets all of his independent sales representatives at each of the two large sporting-goods exhibitions each year.

"If you're a big company, you can dictate to your sales reps when and where to come to meetings," explains Smith, whose Oakdale, Calif., firm distributes sports equipment such as table-tennis balls and badminton shuttlecocks. "When you're a third, fourth, or fifth line that they sell, like we are, we need shows like this to let our salespeople see our new products without having to go all over the country."

Budget Adequately

The cost of participating in a trade show can range from under \$1,000 to tens of thousands of dollars. But figure generally on spending several thousand dollars.

For a typical show, about one-fourth of that budget will go toward space rental (\$5 to \$50 a square foot), according to guidelines put out by Nomadic Display, an exhibit provider in Springfield, Va.

About one-third of the average budget provides for furnishings, equipment, and other exhibit expenses. About one-fifth should be set aside for show services such as utilities. Transportation accounts for about one-eighth of the typical show budget.

Promotion and personnel usually account for under 10 percent of overall expenses; the rule of thumb is that the typi-

cal trade-show retinue is four people, and the typical stay is 4½ days.

But find ways to cut costs. There are many, many ways to hold down or trim expenses significantly. Because the booth is the biggest expense by far for most exhibitors, start there.

Companies just starting out or only doing one show a year should consider renting their displays. Renting costs about 20 percent less than buying a display.

Another gambit is to share a larger exhibit space with other companies offering similar or complementary products, which provides both a larger presence for a smaller price and the added benefits of cross-selling.

Portable booths are increasingly popular, especially with smaller companies on limited budgets; a huge variety of lightweight, easy-to-construct kits now are available. And labor laws in many big cities have changed recently, says Hanobik, permitting exhibitors to

set up and take down their own displays without violating union rules if they can do so in an hour or less.

When it comes to custom-constructed booths, Hanobik urges clients to save about half the cost of a new exhibit by buying castoffs from large companies and having them refurbished.

Help in locating show-booth designers and others with expertise in trade shows can be found in the *Center for Exhibition Industry Research Membership Directory and Buyer's Guide*. The newly published directory contains overview information about trade shows as well as cross references to suppliers of specific services. The directory is free to members of the association (mem-

bership costs \$500 a year), and it can be obtained by nonmembers for \$75. To order, call (301) 907-7626.

Nurture Sales Leads

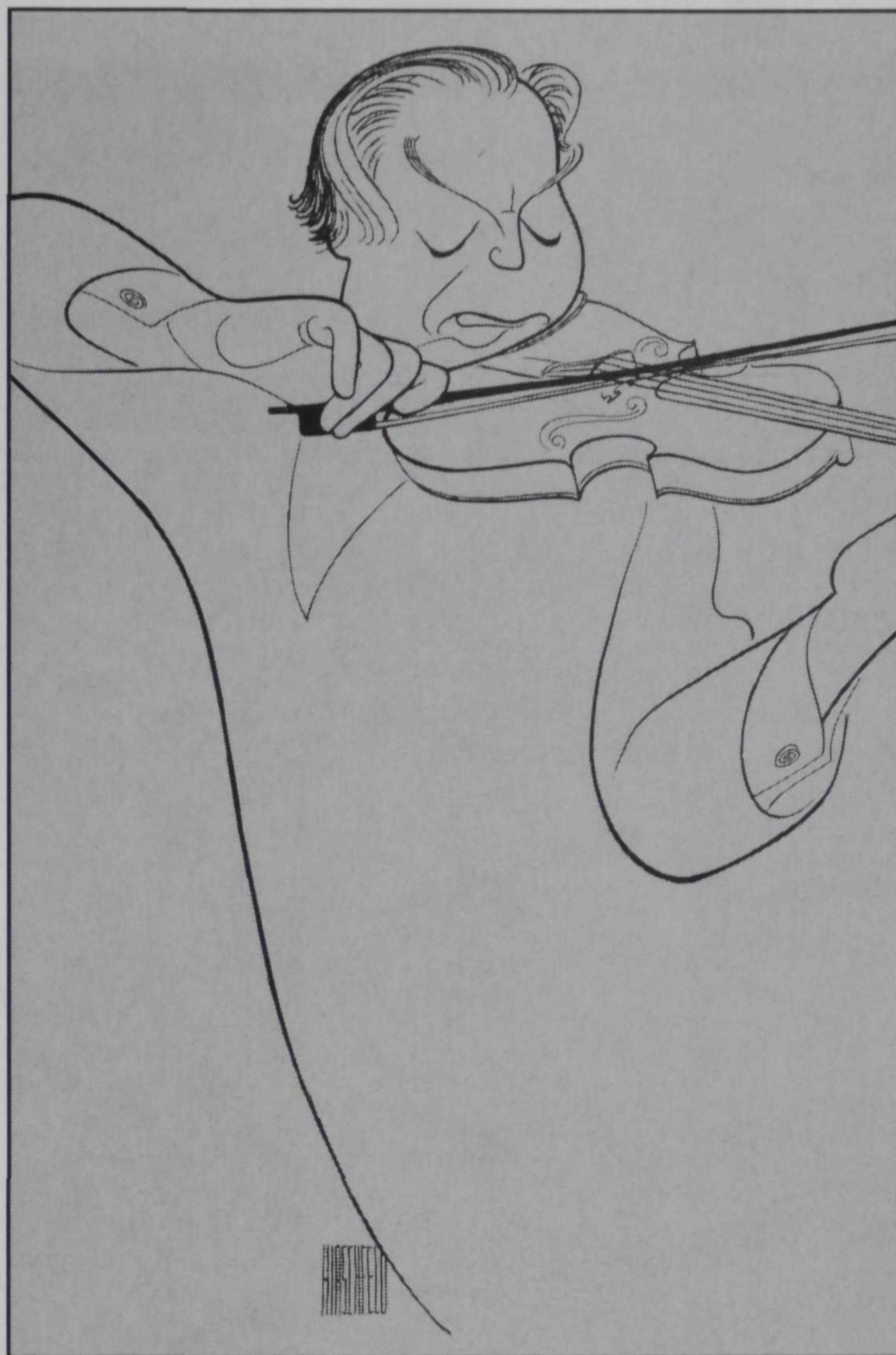
After going through what can be monumental efforts involved in participating in a trade show, squandering the leads gained there is an unforgivable sin.

In addition to converting immediate sales opportunities, constructing a sound lead-management program can help companies evaluate the effectiveness of the exhibition they just attended and make informed decisions on future shows. **NB**



To order a reprint of this story, see Page 67.
For a fax copy, see Page 37.

Nine years ago,
Isaac
Stern
could have
stopped
playing the
violin.

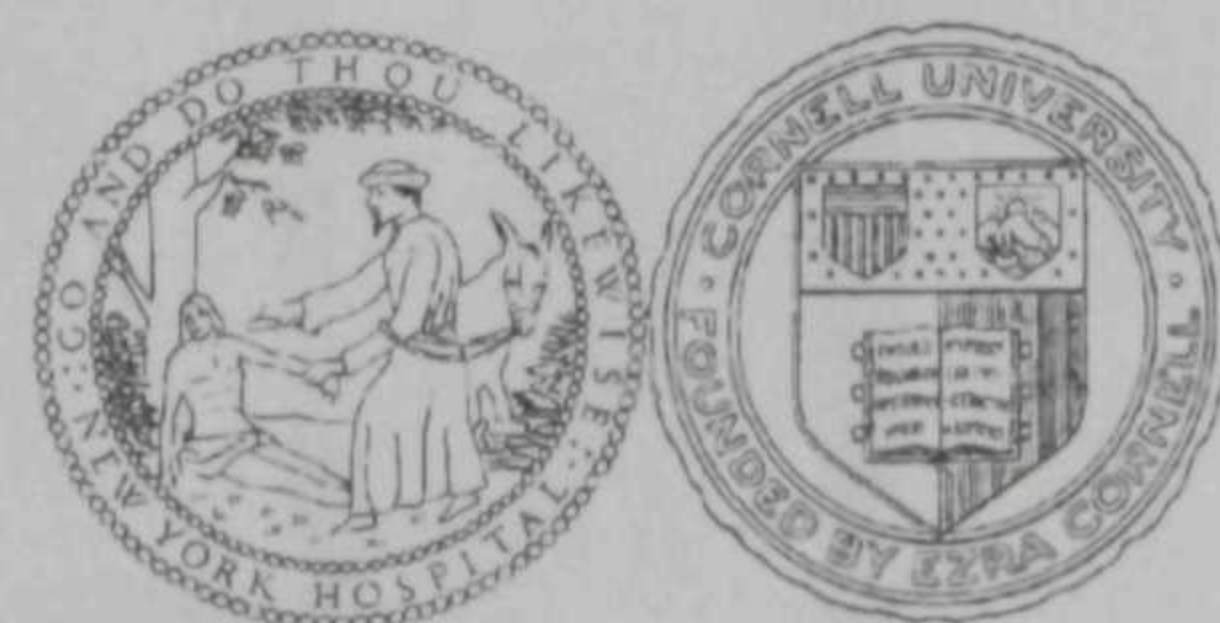


He needed a coronary bypass. He chose New York-Cornell where Wayne Isom is chief of a cardiothoracic unit that's performed 10,000 bypass operations.

The usual procedure involves a vessel that can, in rare cases, lead to decreased sensation in the hand. Dr. Isom couldn't imagine Isaac Stern losing even a miniscule fraction of his sense of touch. So he changed course with a procedure that avoided the problem altogether. That was nine years ago. The result: Isaac Stern continues to be heard in concert halls around the world.

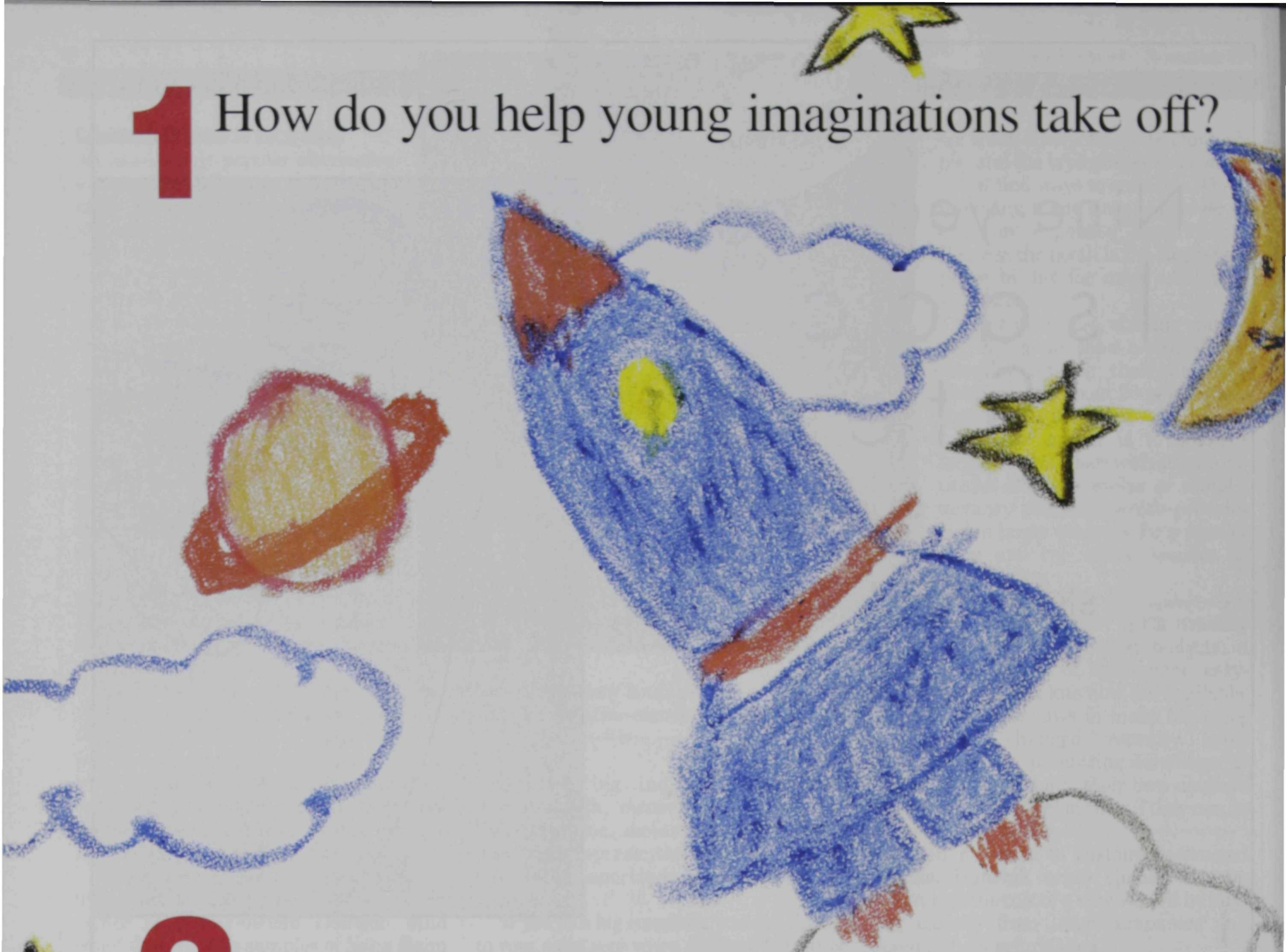
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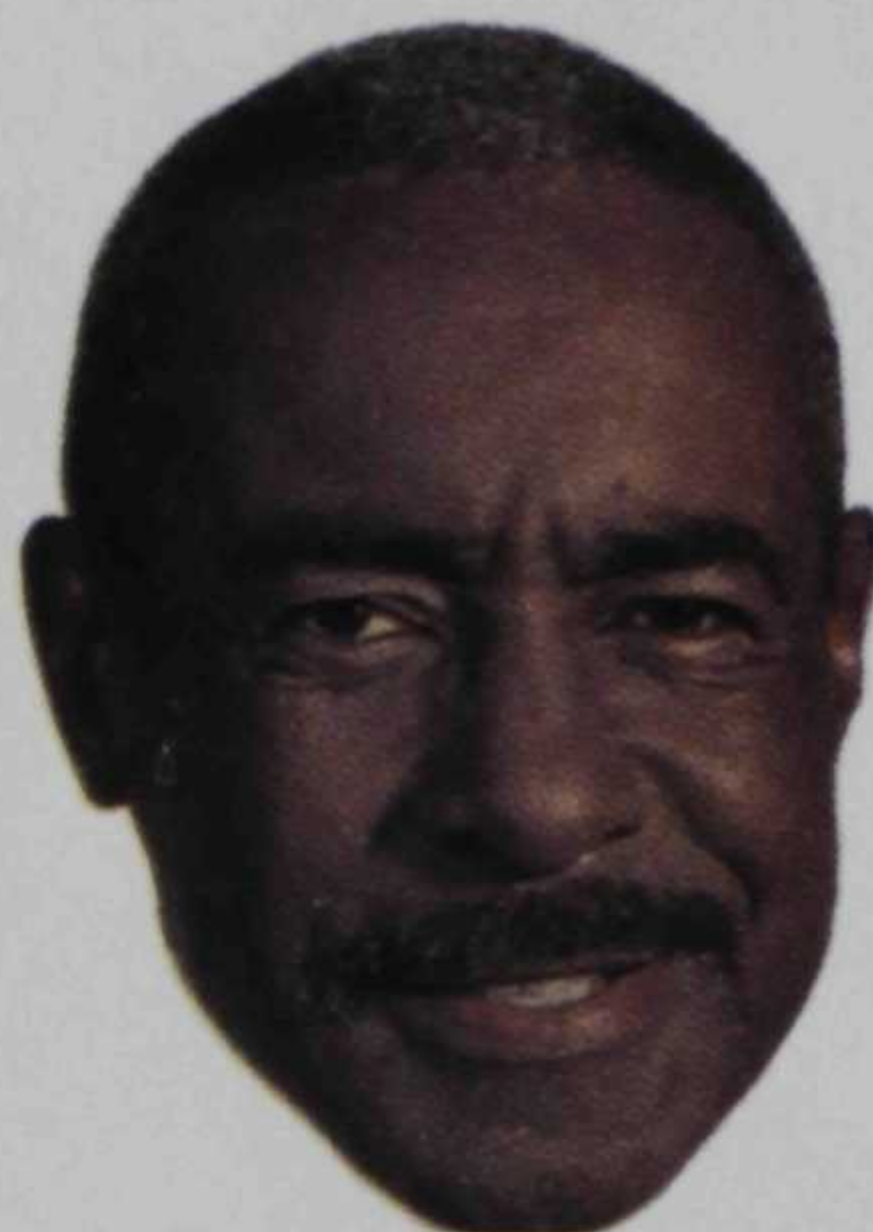


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Ways To Harness Runaway Costs

By Lynn Woods

When you take a business trip for the Global Concepts financial consulting firm, your first stop is Anne Sullivan's office.

Sullivan is finance officer at the 12-employee company in Atlanta, and she keeps a vigilant eye on its travel costs and practices. The eight employees who travel regularly are required to make all arrangements through her.

She books through one travel agency, which provides rebates in the form of free airline tickets. She may ask employees to spend a Saturday night at their destination or to use a less convenient airport if doing so means a deep discount on an air fare. She may reserve their rental car with a lesser-known company or put them in a less costly motel—all for the purpose of keeping the company's travel expenses in check.

And when Global Concepts sponsors one of its forums—on banking issues, for example, or financial uses of the Internet—and brings in guest speakers, Sullivan asks them to let her arrange their travel to reduce costs that she says can be "phenomenal."

Indeed, small companies everywhere—even those with only a handful of regular travelers—are adopting methods like Sullivan's to cope with steeply rising travel costs. According to the American Express Domestic Airfare Index, the typical amount spent for a round-trip air fare for business travel (described as the lowest economy fare available with a three-day advance purchase) was \$358 in June, up from \$335 in June 1995, a 7 percent increase in 12 months.

Hotel room rates are also rising. Between 1990 and 1995, the average published, or standard, rate—known in the industry as the rack rate—in the U.S. increased by 33 percent, according to the Travel Industry Association of America.

In its own survey of lodging costs, Runzheimer International, a travel-management firm in Rochester, Wis., found that room rates on average went up 21.3 percent from June 1995 to this past June, and the company forecasts an additional 7.5 percent increase next year.

Runzheimer's surveys of car-rental rates

also show sharp increases—15.7 percent from June 1995 to June 1996, and a forecast of an 8.5 percent jump next year. Car-rental increases appear to have tapered off since 1995, when Runzheimer's survey of rates charged by the four largest rental companies at 100 selected airports showed an average 32.8 increase for the year.

At Global Concepts, travel guidelines are informal. Sullivan keeps tabs on expenses mainly by overseeing travel arrangements herself and talking with employees about her money-saving procedures. These include booking advance-purchase airline tickets if possible.

And she has found that having employees



The Rising Cost Of Business Travel

Price Index For Air Fare, Lodging, Meals, And Rental Car



*The index reflects a three-day business trip. The base year of 100 is 1988. The air-fare component is calculated from the average cost of round-trip tickets between 20 pairs of cities with heavy business travel.

SOURCE: RUNZHEIMER INTERNATIONAL

CHART: GEORGIA LEIGH MCDONALD

Big Costs, But Trimmable

At many companies, travel costs represent a major chunk of total expenditures. Typically, "T&E [travel and entertainment] represents the third-largest controllable bottom-line expense, after labor and facilities," says Ed Barewich, vice president of sales at Aquarius Travel, a travel agency in Cambridge, Mass.

Small firms are particularly vulnerable to travel-cost increases because they usually don't generate the volume of travel needed to negotiate deep discounts with airlines, hotels, or car-rental companies.

Nonetheless, even small firms can save on their expenses by planning properly and taking certain steps. They include establishing company-travel guidelines, assigning a coordinator to authorize company travel, working with a single travel agency, and tracking travel expenses.

stay over for a Saturday night to get a lower air fare can reduce a trip's cost significantly, even when the meal and lodging expenses of an extra day are subtracted from the air-fare savings.

Using secondary or less convenient airports to get a lower air fare may mean employees fly to and from Dulles International Airport, which is farther out in Washington's Virginia suburbs than close-in National Airport. Or they may use New Jersey's Newark International Airport, which is farther from Manhattan than New York's LaGuardia Airport.

In booking company travelers in moderately priced hotels, Sullivan simply avoids properties in prime areas such as San Francisco's financial district. And although Global Concepts has negotiated a preferred rate with a major car-rental company, she often gets lower rates at rental companies

Lynn Woods is a free-lance writer in Kingston, N.Y.

TRAVEL

operating in less costly facilities off the airport premises. She also may ask employees to take taxis in some instances rather than rent cars.

Sullivan also keeps close watch on expenses even after a trip is over: When she received a bill for an exorbitantly costly phone call made during a flight, she told the traveler such extravagances are not allowed.

Track And Manage

When companies manage their travel expenses assertively, they can achieve savings of as much as 45 percent, according to estimates by Gerard Smith, a senior partner at The T&E Group, a travel management consulting firm in Newport Beach, Calif.

Evidence that travel costs can decrease when vigilance increases is found in the experience of Harris Laboratories, a clinical-research organization based in Lincoln, Neb. About 70 of the company's 458 employees travel, and five years ago Harris decided to manage its travel costs in-house.

Charlotte Ballard, a corporate executive assistant, was assigned to get a handle on the firm's travel costs, so she attended a seminar hosted by a university on putting together a travel policy. She also asked many people for their suggestions on how to submit requests for proposals to travel agencies, and she negotiated with vendors herself.

After tracking her company's travel expenses for a year, she selected an agency to book the company's travel and implemented a three-page travel policy. Because employees were booking their travel through their secretaries, Ballard arranged a seminar to introduce the secretaries in a positive way to the new policy and to the travel agent.

Ballard flew to Phoenix, where Harris Laboratories maintains an office, chose a preferred hotel for employees who go there on business, and negotiated a special rate for them. "We probably do 250 nights at one hotel," she says. Ballard also has negotiated rates with a second hotel there and with a car-rental company for rentals in Phoenix.

Today, Harris' employees are instructed to have their travel arrangements made through the four travel coordinators Ballard manages; they in turn deal directly with the agency. She has saved by booking advance-purchase air fares—sometimes as far as a year ahead.

If an airline fare war occurs, the coordinators notify employees so that they can reschedule their travel to take advantage of

■ It can help consolidate a company's travel by directing employees to book through one agency and to use one car-rental company and hotel chain, thus building a basis for possible future negotiations with vendors.

■ It can reduce unnecessary costs by educating employees and making it clear that the company intends to manage its travel costs.

A written policy need not be more than three pages, and it can be flexible. Basic guidelines include the classes of air travel that employees are to use. For example, is coach the only permissible class, or are higher-priced tickets such as business class acceptable for flights of a certain minimum duration?

Policies should also note the type of hotel and daily meal expense allowed and the preferred travel agency and car-rental vendor.

Many travel agencies will work with companies to help them fashion a policy and to obtain discounts for them.



Travel manager Anne Sullivan of Global Concepts sees that the consulting firm's employees get the best possible rates for air travel, lodging, and rental cars, and she checks the results—trip by trip.

the cut rates. All employees must fly coach regardless of the length of the flight.

The results have been substantial: Last year, Harris Laboratories paid \$176 on average for a domestic round-trip ticket and \$872 for an international ticket. Those are about half the average prices paid by Harris in 1990—\$393 for a domestic ticket and \$1,616 for international travel.

The savings are particularly significant considering that the volume of travel at Harris remained about the same: The company spent \$227,000 for 742 tickets last year, or about 30 percent less than the \$331,432 that the company spent on 737 airline tickets five years earlier.

Pointers For A Travel Policy

With its level of travel expenses and its three-page travel policy, Harris Laboratories bears out a recommendation by travel agent Barewich: A company that spends \$250,000 or more a year on travel should have a formal, written travel policy. It can serve two important functions:

The first step is to establish a record of the company's travel expenditures.

With smaller businesses, "the biggest gap is obtaining good information on travel expenses," says Troy Haas, president of Brownell Destinations, a travel agency in Birmingham, Ala. "Getting control of that information is key" to limiting future expenses, he says.

It helps companies determine their travel patterns and see where they can save money, and it is essential in approaching an airline, hotel, or car-rental company for a special rate. Airlines, for example, require at least six months' data before they will negotiate, according to an account executive at Aquarius Travel.

Last January, Steven St. Germaine, manager of contracting and purchasing at SatCon Technology, a 130-person research and development firm in Cambridge, employed Aquarius to help his firm devise a written travel policy. With approximately 40 traveling employees and annual travel expenditures of \$1 million, SatCon had a

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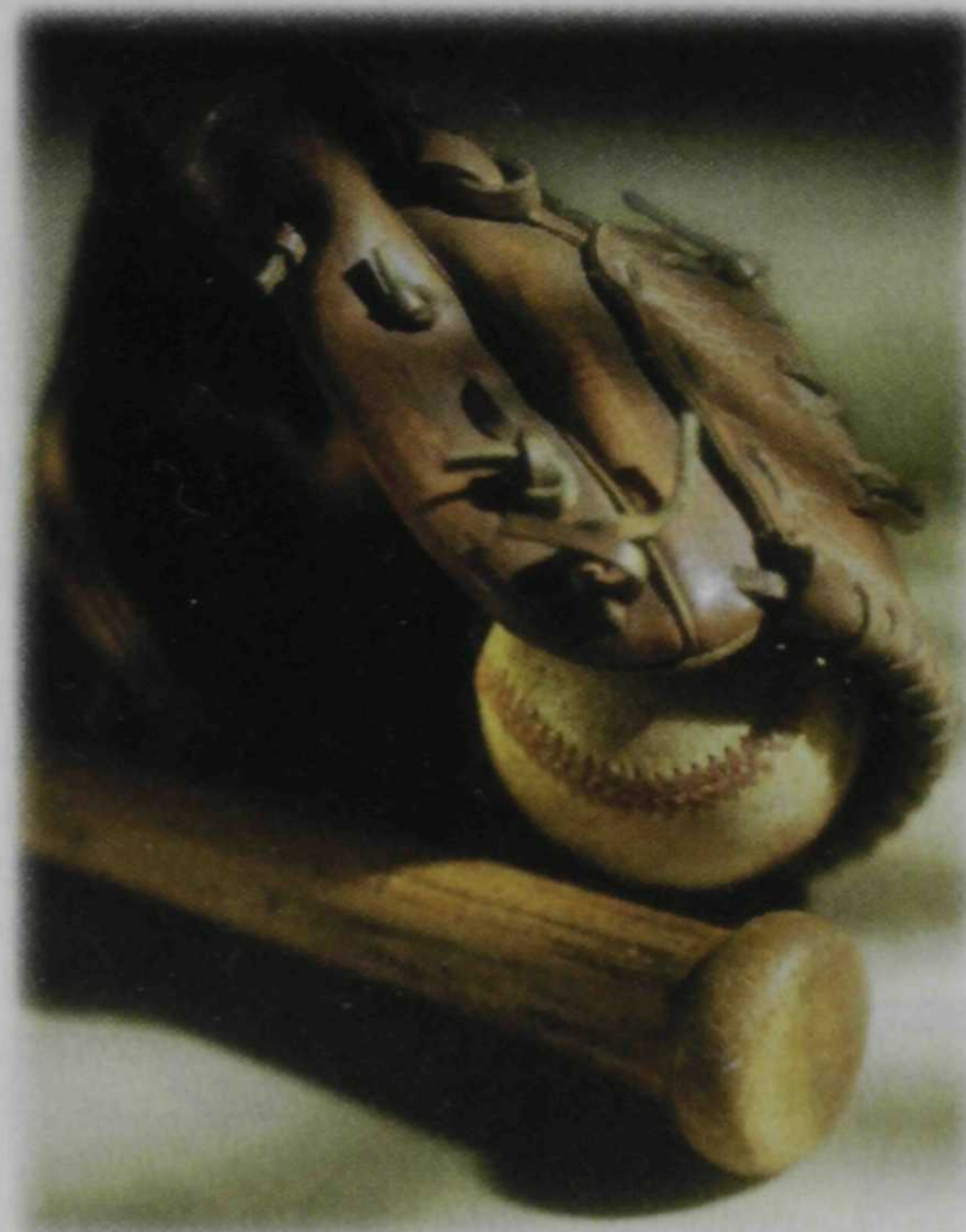
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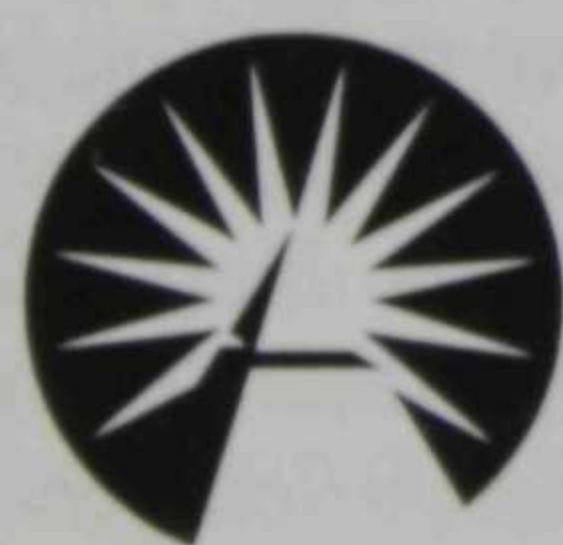
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How To Find The Discounts

Discounts can be found for almost every phase of a business trip. Here are some travel experts' suggestions for finding them:

Air Fares

Book in advance if possible to avoid unrestricted last-minute fares, which generally are high.

You may also save by taking a connecting flight, flying to and from a secondary airport, or traveling at the hours or on the days designated by an airline as off-peak for that route.

Consider using low-fare carriers. In doing so, however, travel coordinators should weigh the savings against possible inconveniences such as less-frequent flights and more connections.

If the carrier offers ticketless reservations—the spreading industry practice of using computer-stored reservation data for a passenger rather than issuing a paper ticket—make sure you have a system, perhaps with your travel agent, for tracking reservations that your company's travelers made but later decided not to use.



Use credit cards to book air fares. If you have only three or four people traveling, consider booking their flights on the company president's credit card to simplify the bill-

ing, advises Jim Strong, president of Strong Travel Services, Inc., in Dallas.

Use airline consolidators for international tickets. Consolidators are wholesalers who buy blocks of tickets below the market price and resell them, either directly to the public or through travel agents. Be aware, however, that these tickets often are nonrefundable and carry other restrictions.

If you have a group of 10 or more traveling to the same destination, look into special meeting fares, offered by most airlines.

Hotels

Generally, your company needs to use 50 to 100 nights a year at a hotel before the hotel company will negotiate a discounted rate with you.

If you don't have enough volume to get a break on the rate, look at your needs and try to negotiate an amenity that's valuable to you, such as free parking, breakfast, use of the fitness center, or local phone calls.

Travelers may pay significantly less at value-oriented chains that lack full-service restaurants or other amenities. Such chains include Marriott's Fairfield Inns, which offer a free breakfast setup, and Best Western, which is no-frills but clean, serviceable, and often located near a chain restaurant.

Hotels typically lower their rates at off-peak times. Generally, Thursday and Friday nights are cheaper than Tuesdays and Wednesdays.

Consider joining a travel club, which



may offer substantial discounts off the standard published room rate. About three dozen are listed in *Consumer Reports Best Travel Deals 1996 Edition*, available in book-

stores or from the publisher, Consumer Reports Books, for \$8.99 plus \$2.50 for shipping; call (515) 237-4903.

Use a discount reservation service. A number of them maintain sites on the Internet, and a few also enable you to book through the Net. Search under "hotel discounts" for listings.

Car Rentals

Generally, to get a break on rates, you need to spend at least \$30,000 annually on car rentals. But the major car-rental companies have programs for even the smallest firms.

Some of the negotiable items, according to Steve Glenn, president of Executive Travel, in Lincoln, Neb., include collision insurance, upgrades to a better class of car, drop-off charges, and the rule adopted by most car-rental companies that bars drivers under 25 from renting a car.

Shop around. The car-rental industry is



competitive, and in some instances a local company might offer a much better rate.

Try to rent at off-peak times. In business cities, rental cars generally cost less on

Thursdays and Fridays than on Tuesdays and Wednesdays.

If time is not critical, consider renting from an off-airport firm.

Look at alternatives. In some cities, taxis or public transportation can be less expensive and more efficient than a rental car.

TRAVEL

strong interest in controlling its costs.

Aquarius created weekly and monthly reports on SatCon's travel spending. "By doing this, we can identify who is not adhering to our policy," says St. Germaine. "We can easily see where we're spending dollars unnecessarily."

SatCon also centralized its travel functions by assigning a buyer in St. Germaine's group to do all travel booking. The new travel policy, while somewhat flexible, discourages the use of luxury hotels and advises travelers to book a room through the Aquarius agency to take advantage of its preferred hotel rates.

The policy also requires employees to fly coach and suggests that they take a connecting flight if they can save \$200 or more by doing so. One monthly report showed employees' adherence to the travel policies had saved SatCon \$7,000, says St. Germaine.

Other Money-Saving Tips

Besides keeping a tight rein on travel arrangements and booking the lowest fare or rate offered by vendors, there are other ways that even very small companies can save on travel.

For instance, employees can join a travel club. Although these clubs charge an annual fee, the discounts on hotels, car rentals, and dining can easily make the fee a worthwhile investment.

One of the largest such companies is the Encore Travel Savings Club (1-800-638-0930). For \$49.95 a year, a member can get discounts of 25 to 50 percent at more than 4,000 hotels in the United States and overseas. Discounts as high as 30 percent are available on car rentals at Alamo, Avis, Hertz, and National. Reduced prices are available also at participating restaurants.

Entertainment Publications (1-800-445-4137) offers travel discounts a bit differently. The company publishes guides (ranging in price from \$28 to \$59.99) that list hotel, car-rental, restaurant, and air-travel discounts of up to 50 percent. Most of the guides are for particular cities or regions. But the *1997 Ultimate Travel Savings Directory* (\$59.99 plus \$3 shipping charge) contains discount coupons for use at the more than 5,500 U.S. and overseas hotels listed in the publication.

Still another way to save money on hotels is to book through a discount reservation service. Hotel Reservations Network (1-800-964-6835) serves more than 400 hotels in 14 cities. Quikbook (1-800-789-9887) offers discounts at 96 hotels in Atlanta, Boston, Chicago, Los Angeles, New York, and Washington.

Both services offer discounts ranging from 35 to 60 percent. A hotel's own rate may be lower, however, if it is running a special promotion. Travelers should always check with the hotel to see if the discount

offered by a club or reservation service is indeed the lowest.

Dealing With Expansion

A small firm needs to assess its travel needs and revamp its policies accordingly, not just when costs hit the stratosphere but also when the company starts to expand rapidly.

Frank Cusick joined Cascade Communications as corporate controller in 1994, when the firm's corporate office was using a small travel agency and its outlying sales offices relied on local agencies.

For Cascade, a Westford, Mass., company that makes switches for the telecommunications industry, this arrangement was inefficient, especially considering the dramatic expansion the company was beginning to undergo. Between 1993 and 1995, revenues mushroomed from \$7 million to \$135 million, and in 1995 the number of employees doubled to 400.

Cusick revised and upgraded the company's travel policy and shopped for a travel agency willing to be a partner with Cascade in helping it gain greater control over its travel costs. He decided to consolidate the company's travel arrangements with Aquarius Travel, which now handles both the corporate office as well as the company's scattered sales offices.

"I wanted a midsized agency," he ex-

plains. "With the old agency, we were missing the support staff, the management systems, and people with expertise to negotiate with vendors." On the other hand, "I didn't want to go with a mega-agency because I was worried we wouldn't get a lot of attention."

Aquarius moved two of its employees into Cascade's offices and set up a toll-free phone number for the firm's 100 traveling employees. Agents can print airline tickets on-site. Since signing up with Aquarius, Cascade has seen a drop of at least 10 percent in travel costs, which are expected to reach \$3.5 million this year, Cusick says.

From pursuing air-fare discounts to negotiating hotel room rates to using travel clubs' discount coupons, the tactics for keeping business travel costs in line are varied—and available to firms regardless of size. And as Harris Laboratories' Ballard demonstrated, managing those costs can produce impressive savings. "The head of our finance department didn't think I could do it," she says. But she and others with similar responsibilities in their firms demonstrate that companies have a lot to gain and nothing to lose by implementing a travel policy, working with an effective travel agency, and tracking travel costs. **NB**

Shopping For A Travel Agency

A good travel agency can provide negotiated rates and other types of discounts that can help companies limit their travel costs.

Many corporate travel agencies belong to hotel consortiums—groups of agencies that buy hotel rooms in bulk at wholesale rates—which in turn can offer discounts of 5 to 50 percent off the standard corporate rate. In rare instances, an agency may also get wholesale rates on car rentals.

Some agencies also give customers rebates—known in the industry as revenue sharing—according to the amount of the customer's bookings. (For airline tickets, most agencies still rely solely on commissions paid by the airlines, although a few agencies began charging their clients fees after airlines last year capped their commissions paid to travel agents.)

Other benefits of using an agency may include free upgrades for the CEO, which may be easier to obtain than revenue

sharing. And many agencies can save companies money by using software programs that track air fares continuously. Such programs enable them to rebook a ticket up to 24 hours before departure if the fare drops.

In addition to determining whether an agency offers discounts, you should ask about its ability to provide frequent, detailed reports on a company's travel activity. Such a report might indicate the number of nonrefundable tickets that weren't used, or that a traveler stayed in a four-star hotel instead of the medium-price property specified in the company's travel policy, or that an employee flew full-fare coach instead of choosing a lower-fare flight that departed an hour earlier.

Quality of service is also important, of course. When company travel manager Charlotte Ballard at Harris Laboratories, in Lincoln, Neb., requested proposals from five travel agencies, she did not select the agency that offered her company the best rebate formula, she says. "I've learned that service is more important than extra dollars."

The agency Ballard selected offers daily delivery of tickets, responds quickly to her calls, and assigns two agents to work with her company.



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Nation's Business
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In-House Publishing, Professional Results

Yesteryear's charm meets today's desktop-publishing technology when bed-and-breakfast owners Marcy and Dale Tudor turn out their own marketing brochures.

By Tim McCollum

The guests have had their breakfast and have gone out for the day. The chores are finished. Now the editor of *The Weatherbury Moos* can sit down at her computer to finish off another edition of her business's quarterly newsletter.

For Marcy Tudor, the newsletter is a vital business tool, allowing her to keep in touch with former guests of Weatherbury Farm, the bed-and-breakfast that she and her husband, Dale, own on their farmland in Avella, Pa. The newsletter, along with the lure of a country weekend on a working farm, she says, is part of the reason her guests keep coming back.

The Weatherbury Moos is just one of the documents Tudor creates on her computer to promote Weatherbury Farm, 20 miles southwest of Pittsburgh. Since the inn opened to guests four years ago, Tudor has also produced marketing brochures, greeting cards, and a 40-page guide to the farm and its surroundings; she uses her computer, a laser printer, and a desktop-publish-

ing program, Publisher by Microsoft Corp.

The software, Tudor says, has enabled her to produce professional-looking documents without the expense of hiring a professional designer. "I have such a good time doing this," she says. "I don't feel like I'm very artistic. But the software allows me to put that artistic part of me to work."

These days, more small firms than ever are using desktop publishing to create marketing materials. Until recently, most were having their promotional materials, catalogs, and other publications produced by graphics-services companies or through the desktop-publishing capabilities of copy- and printing shops.

Often these services were expensive and didn't give small companies the flexibility to

print short runs or make quick alterations as their needs changed. Many companies took the do-it-yourself route, designing materials in word-processing programs and printing them on dot-matrix or inkjet printers. But the results sometimes looked typewritten and amateurish.

That's all changing now. A desktop-publishing renaissance is under way. It is being driven by the availability of new, easy-to-use graphics and publishing software and low-cost, high-quality computer hardware and peripheral equipment such as color

printers, scanners, digital cameras, and storage systems. With the right mix of software and equipment, virtually anyone can be a publisher like Marcy Tudor.

Because it's relatively easy and inex-

"I don't feel like I'm very artistic. But the software allows me to put that artistic part of me to work."

—Innkeeper Marcy Tudor



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SMALL BUSINESS TECHNOLOGY

pensive to publish materials using your own computer, "people began learning to do things themselves," says desktop-publishing expert Bob Weibel, author of *The QuarkXPress Book*.

Weibel says the turning point for desktop publishing came with the emergence of Microsoft Windows. Windows allows users to work with their IBM-compatible computer by pointing and clicking on simple visual images using a hand-held mouse rather than typing in obscure commands.

Software developers who had created desktop-publishing programs solely for the Apple Macintosh found a large potential market for their products and began to

write versions of the software for Windows. Even so, desktop-publishing programs such as PageMaker, from Adobe Systems Inc., Ventura, from Corel Corp., and QuarkXPress, from Quark Inc., were relatively expensive and difficult to learn for many business people, and so they were used primarily by graphics professionals. There were few good programs intended for beginners.

Today, several companies are creating software for beginners. Such programs include Microsoft Publisher, Adobe HomePublisher, and Design Essentials, from Canon Computer Systems Inc.

The idea behind such software is to make

desktop publishing as easy as formatting a document in a word-processing program. These programs accomplish this goal by automating much of the process and providing templates, clip art, and intuitive help systems to get users started.

One of the biggest advantages of desktop-publishing software is that it lets small businesses create materials that rival those of larger competitors. That's particularly important in a retail setting.

Douglas Bradshaw, sales manager for Judd's Office Products in Frankfort, Ky., can attest to that. He's been using his computer to create signs, displays, labels, and promotional materials for the small office-

Creating Your Own Web Site

The newest medium for desktop publishing is the Internet. Professionals and novices alike are rushing to establish a presence there for themselves or their firms.

The most popular way to do that is to create a "home page" on the World Wide Web, the most user-friendly area of the Internet. These Internet sites frequently consist not only of text but also of graphics, pictures, and sound.

You don't have to be a computer programmer to design a respectable page, however. A number of programs can help you design multimedia pages. Here's a sampling:

Claris Home Page, Claris Corp., 1-800-544-8554: A new Web-authoring program, Claris Home Page is an excellent choice for novices who want to set up full-featured pages. Home Page lets users build their pages as they would like them to appear.

Then, Home Page automatically writes the HTML—hypertext markup language, the standard Web coding—that enables users to tie text and graphics files to their home pages and link these pages to other home pages on the Web. Home Page also allows users to enhance their pages with tables and customer order forms and to format them so that they simultaneously display multiple windows called "frames."

It is available for the Windows 95, Windows NT, and Macintosh operating systems, and it comes with an offer to pro-

vide a host computer on the Internet for customer Web sites free of charge for up to six months. The retail price is \$99.

FrontPage, Microsoft Corp., 1-800-426-9400:

Microsoft's FrontPage allows users to both design and manage their Web sites. As a design tool, FrontPage resembles the Microsoft Word word processor, and the familiar interface makes designing a Web page easy.

Like Word, FrontPage includes "wizards" that guide users through the design process, plus a library of Web-page templates. Items such as forms and tables can be dragged with a mouse into Web pages or pasted in from other Microsoft Office programs such as the Excel spreadsheet and Access database.

FrontPage also has automated tools for adding complex features that will allow visitors to search for information and enable them to participate in discussion groups with other visitors.

FrontPage is available for Windows 95 and Windows NT at a retail price of \$129. For a limited time a prerelease version can be downloaded free from Microsoft's Web site at <http://www.microsoft.com/frontpage/>

HotDog Professional, Sausage Software, 1-800-711-6030:

This popular Web editor, marketed in the U.S. by Anawave Software, has been upgraded to make it easier for novice users to design home pages. With the use of a mouse, elements such as images, text, and links to other Web pages can be dropped into pages from the Windows 3.1 File Manager or

from HotDog's internal file manager.

The program makes it simple for users to design complex pages with forms and tables, and numerous tutorials can help users get up to speed on HTML authoring. It can be downloaded at <http://www.sausage.com/> for \$79.95.

HotMetal Pro, SoftQuad International, 1-800-387-2777:

One of the first commercial Web-authoring programs, HotMetal Pro lets users create professional-looking Web pages complete with multimedia features such as sound and video. HotMetal's new interface makes it easy for users to find and deploy design elements, and it allows them to see their pages as they will appear on the Web.

The program can open and convert into Web format files created in Windows word processors such as Corel WordPerfect, Lotus WordPro, and Microsoft Word. The retail price is \$159.

InContext Spider, InContext Systems Corp., 1-800-263-0127: This Windows tool is suitable for novices and professionals alike. InContext Spider provides 28 templates and 200 stock images to help beginners create pages without having to learn HTML code. With its built-in browser, users can preview pages before putting them on the Internet, and they can use a mouse to drop Web links into their pages.

Spider supports new page enhancements such as forms, frames, and tables. It is also compatible with the popular Netscape Navigator and Microsoft Internet Explorer browsers.

Spider can be purchased from retail stores or downloaded from InContext's Web site at <http://www.incontext.com/> for \$49.99.



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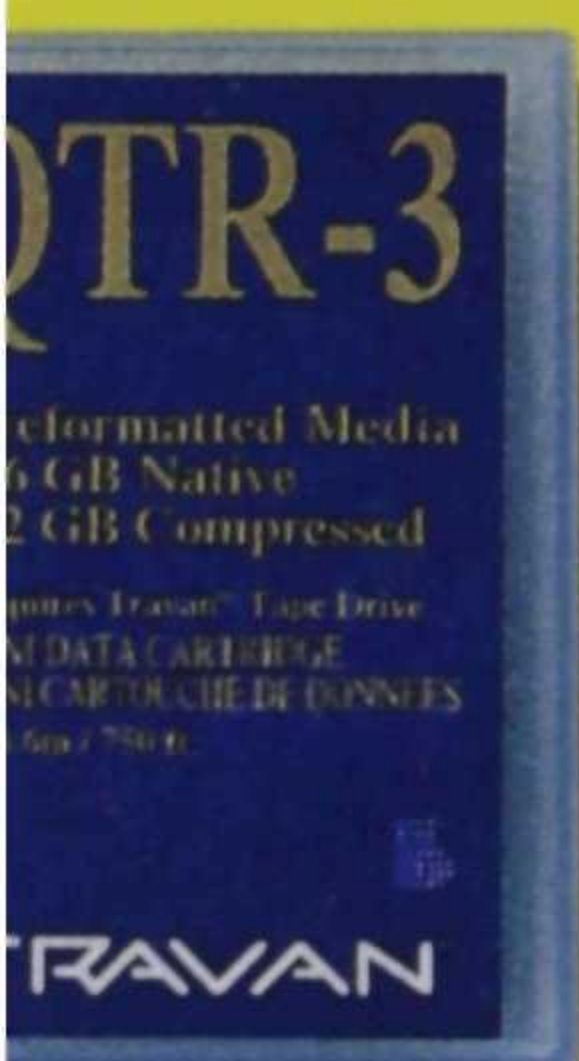
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supply store for the past two years. Now he's spicing up his creations by incorporating photographs, using a hand-held scanner from Logitech Inc. and easy-to-use photo-image software called PhotoDeluxe from Adobe.

PhotoDeluxe enables novices to modify and enhance digitized photos on a computer for use in print documents or in electronic media such as CD-ROMs or pages on the Internet's World Wide Web. It gives novice users many of the capabilities that professional desktop publishers who use Adobe's Photoshop software enjoy.

"I'm doing more with graphics than I could before," says Bradshaw of the new software. "It adds a lot more pizzazz to the drawings and layouts in the store."

An avid photographer in his spare time, Bradshaw says he often experiments with PhotoDeluxe on his home computer to learn more about how to combine graphics

printed," says Weibel. "It's taken a lot of the hocus-pocus out of printing. You can often print short runs of good-looking newsletters straight off your printer."

In addition to printers, a variety of devices for bringing images into computers have proliferated. Some are flatbed scanners that resemble small desktop copiers. Others are low-cost, sheet-fed scanners that scan in paper documents inserted by users much as fax machines scan documents to be transmitted by telephone. Digital cameras are growing in popularity because they allow people to take photos and transfer them directly from the camera to their computer without the need to have film developed.

Imaging devices can be as basic and easy to use as EasyPhoto, from Storm Software Inc., a \$199 device that reads standard photographs into computers. Or they can be as powerful as color flatbed scanners from the



and photo images and to try different color combinations. The fruits of these trials often end up being used in the store. Best of all, though, the software has built-in design templates that enable him to create signs quickly and easily. Bradshaw says the end results match up well with signs that appear in large office-supply chains.

Another reason—besides software developments—for the trend toward more desktop publishing among small firms is the decline in computer prices. Falling prices have made it possible for users to buy PCs with the processing power, memory, and storage capacity necessary for working with large files containing graphics, photos, and text.

Imaging equipment is becoming more sophisticated and affordable as well. Among the options available are color inkjet printers capable of printing multicolor brochures, fliers, business cards, and other documents. Quality color inkjet printers that can meet most of a small company's needs are now available for less than \$400. Prices for most black-and-white laser printers are now well under \$1,000.

"These desktop printers can print text and graphics that look good when they're

likes of Canon, Hewlett-Packard Co., and Umax Technologies Inc. that can scan images at high resolution.

Another positive development is that the manufacturers of imaging equipment are beginning to tailor their products for novice users. Within the past year, Canon, Epson America Inc., and Hewlett-Packard have released color inkjet printers bundled with software that allows users to design and print materials such as brochures, newsletters, posters, and greeting cards.

Canon came out recently with a new line of color inkjet printers and a sheet-fed scanner for the small-business market. The new products come with Canon Creative 2.0, a collection of design software.

With desktop-publishing equipment and software becoming more user-friendly and equipment prices declining, more small businesses are likely to experiment with creating publications in-house.

Marcy Tudor, the bed-and-breakfast owner, says the professional desktop publishers who have seen her work have been impressed that she can produce such high-quality materials on her own using basic publishing software. **NB**

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TRENDS

Covering The Bases For Your Web Site

By Peter Weaver

If you're planning to set up a business site on the Internet, or if you have already done so, make certain your trademark and copyright documents and insurance policies are in order. A competitor could be watching your every move and could try to shut you down if it sees you making what appears to be a legal misstep.

One firm that encountered a product-name conflict when it went on line is Javan Enterprises Inc., a small computer-electronics company in Nashville, Tenn. The firm does business under the name Javanco, which is based on the first name of its owner, Javan Keith.

Javanco established a World Wide Web site in April to sell parts and accessories nationwide.

"We got a cease-and-desist letter from [computer company] Sun Microsystems," says Rick Kendall, Javanco's computer manager. Javanco had already registered its name with Internic, the official Internet name registrar, in Herndon, Va., Kendall says, and company managers thought they had a lock on the name.

Sun Microsystems said it wanted Javanco to give up the name because it was in conflict with the company's new JavaSoft package, a "browser" used to navigate the World Wide Web.

Javanco's lawyers, backed with registration documents, took up the matter with Sun Microsystems' lawyers. As a result of the discussions, Sun Microsystems' JavaSoft president, Alan E. Baratz, issued a statement that said in part: "It should have been clear from the circumstances that Javanco's name was not a play off our Java trademark. It was our mistake."

In another case, Microsoft Corp. is doing battle with Synet Inc., a small Internet-service provider based in Downers Grove, Ill. But this time, it's David attacking Goliath.

"We had the name Internet Explorer registered in Illinois two years ago and have a trademark application pending with the federal government," says Dhiren Rana, Synet's CEO. "Then along comes Microsoft with the same name" for

its Web browser. Synet sued Microsoft to protect its trademark. "We want them to stop using the name," Rana says, "because with all their marketing power they're killing us with our own trademark."

Microsoft appears to be digging in for extensive litigation. "We believe the name Internet Explorer is descriptive wording and is too generic to be trademarked,"



ILLUSTRATION: GEORGIA LEIGH MCDONALD

says Tom Burt, Microsoft's senior corporate attorney.

With Web-site cases appearing on dockets around the country, is there a new, mysterious type of cyberspace law in the making? "There's nothing more to fear in cyberspace law than there is in 'paperspace' law," says Mark Minasi, president of TechTeach International, an Arlington, Va., consulting firm serving computer-industry clients.

Minasi likens Web-site business information to print-and-mail newsletters and advertising circulars. Newsletter publishers now going on line are being advised to take the same precautions as when they mail printed material.

If you're starting a Web site for your business and don't have any experience in the publishing field, however, you may not be aware of the various legal pitfalls that are well-known to print publishers.

If you're going to do business on the Internet, make sure you know all the legal and insurance ramifications.

If you inadvertently use someone's trademark, copyrighted picture, or text in a local information sheet, advertising flier, or other limited-exposure publication, you may get away with it. But "when you go on line," says James Teicher, publisher of Stock Alert, a West New York, N.J., financial-news service on the Internet, "there's a much bigger risk of getting caught because a lot more people, here and abroad, will be watching what you're doing."

Before you put new material on line, it should be reviewed by an attorney who knows the laws pertinent to the publishing business. Your business lawyer or the local bar association should be able to provide names of such experts.

You should also check with your insurance representative to see if you're covered for damages and legal-defense costs that may result from lawsuits over material you put on the Internet. A number of insurance companies offer appropriate coverage.

One type is available through the Newsletter Publishers Association, based in Arlington. "We've put together errors-and-omissions, libel, and copyright insurance for our print and on-line members," says Todd Piczak, a spokesman for the association. The insurance is provided by Media-Professional Insurance, of Kansas City, Mo.

If a member who has purchased the coverage is sued, the insurance covers damage judgments as well as legal costs. The cost for \$1 million of coverage is \$1,200 a year. Membership in the association costs \$395 a year for small firms (those with up to \$500,000 a year in revenues); higher fee brackets have been established for larger companies.

Membership in the association entitles a company to six free hours of review of its materials before they are published; the association's law firm checks the materials for trademark, copyright, libel, and other matters. For further information and an information packet, call 1-800-356-9302.

Before you make the leap into cyber-business, it pays to check first with your lawyer and your insurance agent. **NB**

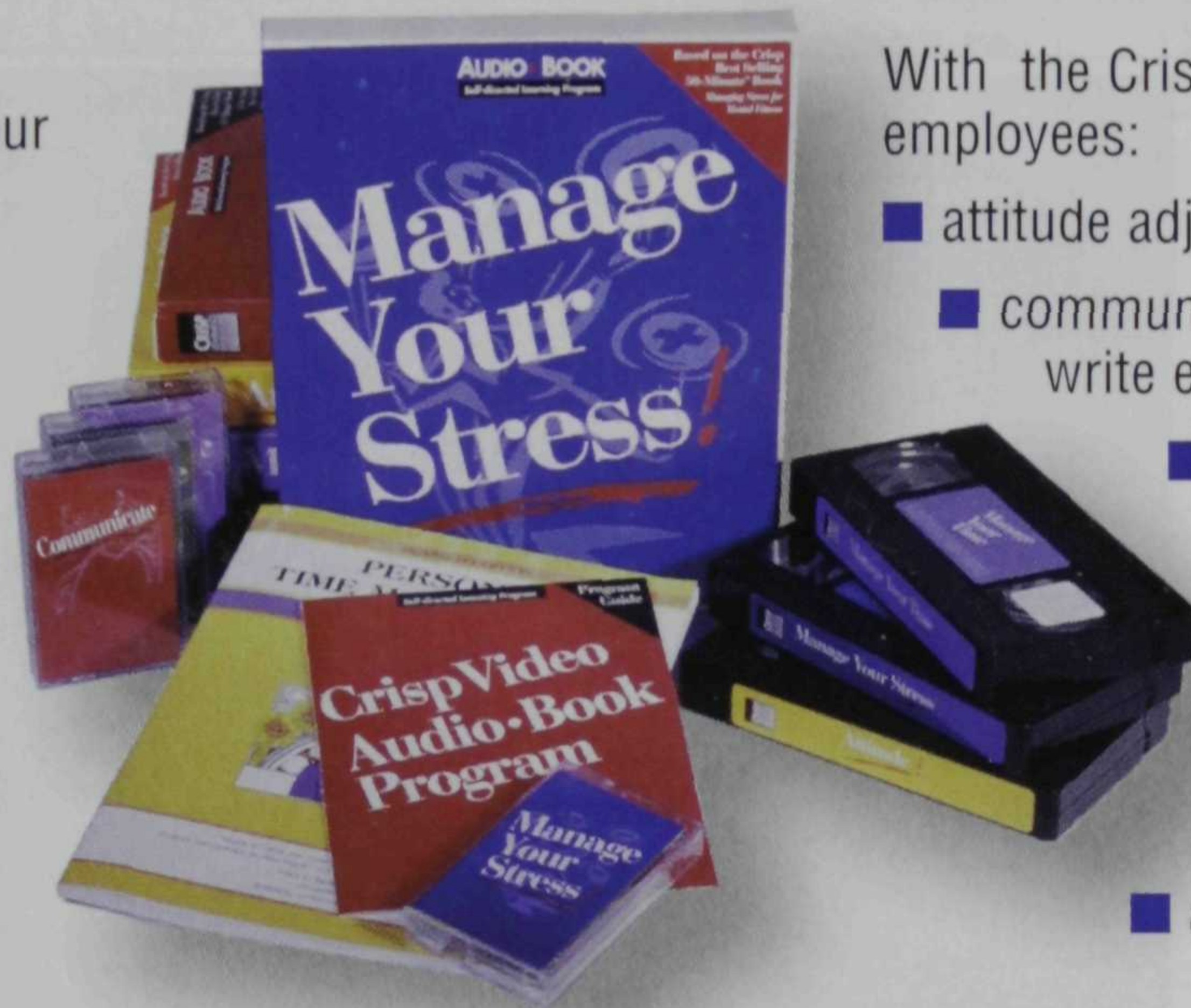
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BENEFITS

Hybrid Health Plans Grow In Popularity

Lower costs with a degree of choice are steering small firms to point-of-service health coverage.

By Roberta Reynes

Early this year, M.W. Samara Inc., a Hawthorne, N.Y., firm that makes silver jewelry, went searching for a way to lower the costs of its health-insurance plan. What the company found—and signed up for—has meant savings not only for Samara but also for its employees.

Under the company's former health plan—a traditional fee-for-service arrangement—the monthly premium for an employee with family coverage was \$790. The new coverage, called a point-of-service (POS) plan, reduced the family-coverage premium to \$540, and it dropped the cost of single coverage to \$200 from \$250.

For each covered employee, the company pays an amount equal to half the premium for single coverage. Thus, Samara's share of the monthly health-insurance premium dropped by \$25 for each of its 55 covered employees.

Samara's new coverage is provided by the Liberty Plan, offered by Oxford Health Plans, in Norwalk, Conn. By signing up for Liberty, Samara became one of the rapidly growing number of small businesses switching to POS health plans, also known as hybrids or open-ended health-maintenance organizations (HMOs).

Like an HMO, a point-of-service plan offers patients a list of doctors and hospitals from which to choose. Unlike an HMO, patients may choose instead to visit hospitals or doctors not on the list; patients who do so, however, pay an additional charge. Hence, they are free to choose their "point of service."

When POS enrollees use only the preapproved doctors and hospitals, the fees and charges are covered by the annual premium, although customarily there's a small additional charge—usually \$10—for each office visit, and there may be other such copayments for hospital stays and surgical procedures.

A POS enrollee who chooses a doctor or hospital that is not on the preapproved list,

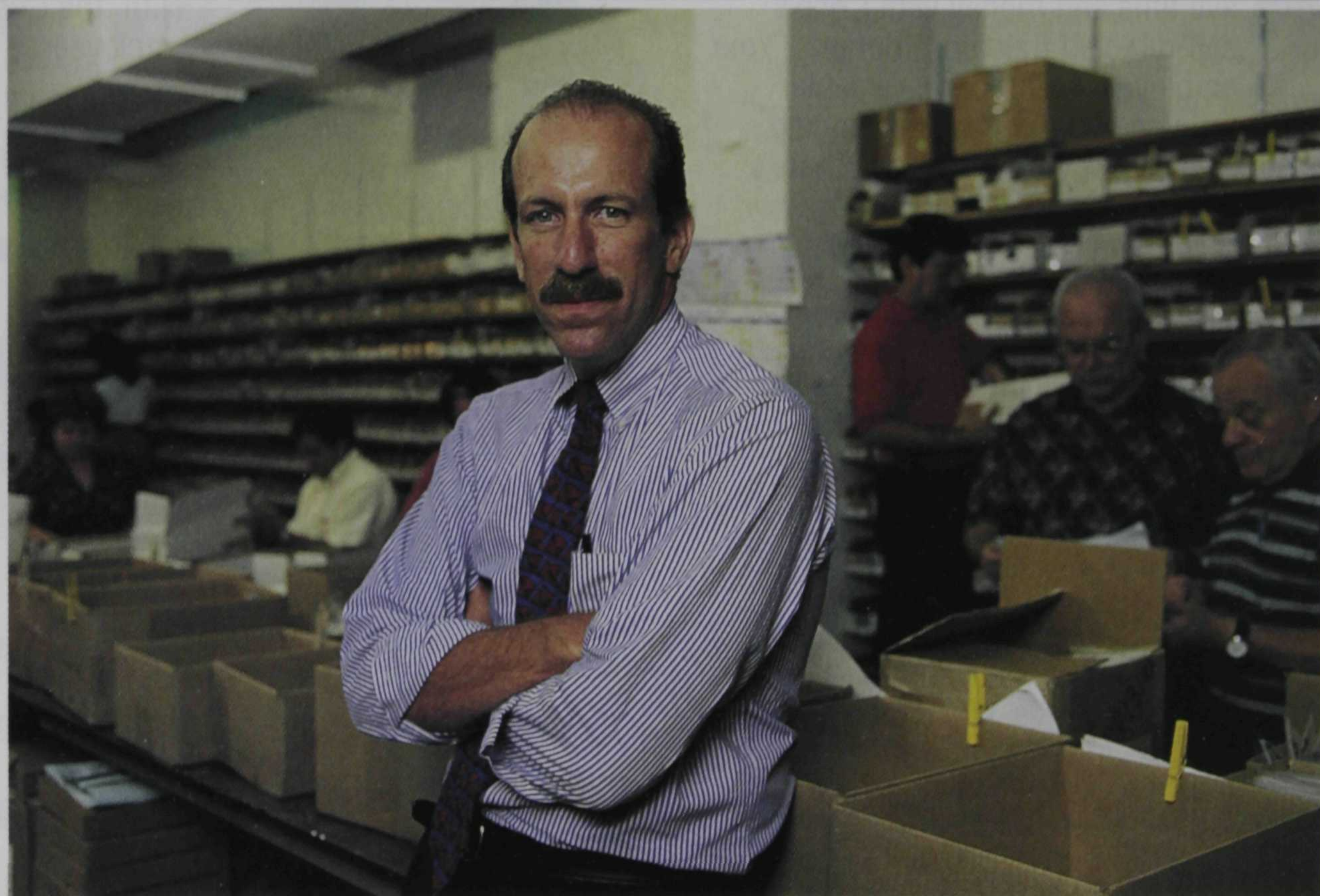


PHOTO: ©WAYNE SORCE

Paying only \$10 at the doctor's office is "a hard deal to beat," says Barry Fried, CFO at the M.W. Samara jewelry-making company, which adopted a point-of-service health plan.

however, must pay an out-of-pocket deductible that could amount to several hundred dollars, plus copayments that typically equal 20 to 30 percent of the total treatment charges.

The plan adopted at Samara has been a hit with many employees. "I like it a lot," says Barry Fried, chief financial officer. "I have three kids, and it's just great to know you can run to your pediatrician and it's only \$10. That's a hard deal to beat. For me, the out-of-pocket [cost] is much less."

Rapid Recent Growth

POS plans first appeared in 1988. By 1993, only 3.9 percent of employees in companies with up to 100 workers were enrolled in them, according to research from KPMG Peat Marwick LLP, a national accounting and consulting firm. But by 1995, according to the firm's latest figures, POS membership among small businesses had ballooned to 20.6 percent.

While POS plans had gained a foothold in the West as far back as 1993 (see the chart on Page 41), the rest of the country

played catch-up during the next two years. In particular, the plans spread rapidly in the Northeast and the South.

With POS plans designed to reduce costs yet offer a level of choice in health-care providers, insurers have been wooing small businesses vigorously. Among those POS providers are Oxford Health Plans; Physicians Health Services, Inc., in Trumbull, Conn.; and United HealthCare Corp., in Edina, Minn.

This new enthusiasm on the part of managed-care providers represents a turnaround. "HMOs pretty much ignored small business until recently," says Jon Gabel, co-director of KPMG Peat Marwick's Center for Survey Research, in Tysons Corner, Va.

A United HealthCare POS plan called Choice Plus HMO is targeted in some markets to companies with as few as three employees. The plan has been growing at 40 percent a year, and it now has 1 million members in 18 states.

Oxford has more than doubled its enrollment in each of the last three years,

Roberta Reynes is a free-lance writer in Spencertown, N.Y.

mainly as a result of its flagship point-of-service offering, the Freedom Plan. More than 800,000 of the 1.3 million members in Oxford's five-state network have chosen the hybrid rather than the insurer's pure HMO. Oxford's new POS, the Liberty Plan, is designed for small firms; the average company size is about 15 employees.

Physicians Health Services entered the POS business just over a year and a half ago. Its Healthcare Solutions is aimed at companies with up to 50 employees. A related product, Healthcare Connections, is marketed through the Connecticut Business and Industry Association, a small-business purchasing cooperative.

After 18 months, the POS plan accounted for 54 percent of the insurer's enrollment, while its pure HMO had declined to 46 percent. Mickey Herbert, Physicians Health Services' president and chief executive officer, expects the trend to intensify. Pointing out that the company gets over half of its annual enrollment growth in January, when many employers renew, he says: "In January 1996, we had 91 percent of our new business in POS. When we look at the numbers for January 1997, point-of-service will just keep going up as a percentage of our total business."

The Appealing Aspects

Why has POS become so popular? "It's significantly less expensive than indemnity insurance," says David Snow, executive vice president of Oxford. He adds that POS plans are attractive to small firms that want to offer employees health-care choices but can't offer more than one plan.

Indeed, giving its 20 employees options was a major consideration when Bron Shoe Co. explored health-insurance possibilities recently. Bron, a family-owned Columbus, Ohio, company that claims it is the nation's largest bronzer of baby shoes, looked at HMOs, POS plans, and preferred-provider organizations. (PPOs, as they are known, are networks of doctors and hospitals that work on a discounted fee-for-service basis.)

Jeff Patterson, director of finance at Bron Shoe, says: "Even though United's Choice Plus was only the third-cheapest of five bidders, the owners selected it because they were committed to giving employees choice."

Patterson says Bron Shoes employees like the convenience of Choice Plus, the large selection of doctors, and the fact that the employee's cost per doctor visit is only \$10, "no matter what the doctor does." He adds: "I really like it because there's not a lot of paperwork. I see only the enrollment and change forms."

When small companies offer more than one insurance plan, the hybrid gets lots of votes. Marden Harrison & Kreuter, a public accounting firm in Port Chester, N.Y., offers its 60 employees both an HMO and a POS plan. Even though the hybrid, Oxford's Liberty Plan, costs a little more than the HMO from another insurer, only three employees have opted for the HMO. "People are really willing to pay for flexibility," says Rosana Mirza, human-resources manager.

While a member's ability to go outside the network makes POS plans attractive,

in fact constitute an essential choice that many consumers prefer.

Some industry observers wonder if POS plans will hit a growth ceiling soon in areas where HMOs are firmly established. When POS plans took hold in the huge New York City market, which includes parts of New Jersey and Connecticut, the region was still almost virgin territory for managed care.

"Other markets have had much higher [managed-care] health-plan penetration than New York," says Herbert of Physicians Health Services. In certain parts of California, he says in citing examples, "they

may have become comfortable with lock-in [no way to opt out] HMOs.

Point-of-service may not be as successful in growing there."

To this, Oxford's Snow replies: "There are markets where it isn't big, and it's because no one is offering it. When it's available, it sells."

In fact, insurers have been adding point-of-service to their roster of offerings in great numbers. For example, an estimated 80 percent of HMOs have the product, up from 42 percent five years ago, according to the American Association of Health Plans (AAHP), an industry trade group in Washington, D.C. But some plans may be starting slowly because of internal difficulties.

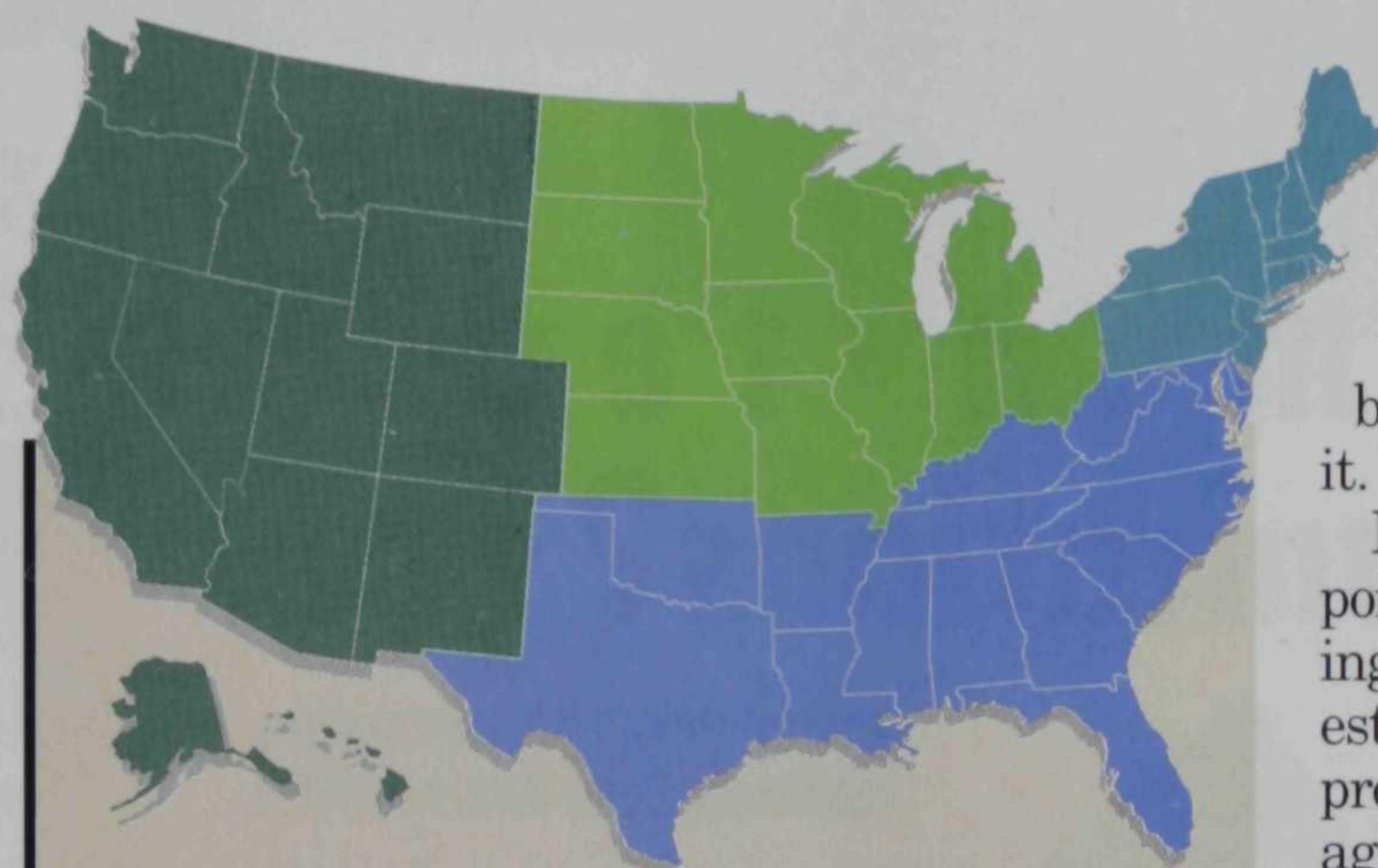
Says Gabel of Peat Marwick: "I've heard from a number of executives at big and small carriers that point-of-service is what employers are looking for. But it is much more difficult to administer than an HMO. My sense is that they are trying to market it but aren't making money on it. They are having a lot more difficult time controlling expenses than in their traditional closed-end products."

Gabel's comment underscores the importance of choosing a plan carefully.

As Marden Harrison, the accounting firm, discovered recently, point-of-service programs are not necessarily alike. Until a year ago, the firm was covered by the hybrid plan of a big-name insurer. "We had constant problems," recalls Mirza. There were billing mix-ups, and some employees complained that they were getting a runaround at doctors' offices—calls weren't being returned, and appointments and referrals were hard to get. Moreover, her company had no designated contact person at the insurer, so no one seemed committed to solving problems.

A year ago, the firm selected Oxford's Liberty Plan, and now the hassles are just a bad memory. "We really don't have problems with this plan," says Mirza. "If some small thing does come up occasionally, it's resolved immediately."

United Services, Inc., a Dayville, Conn.,



Employees Flock To New Health Plans

Percentage of employees enrolled in hybrid health plans at companies with 100 or fewer workers.

	1993	1995
Northeast	3.9%	24.5%
Midwest	3.4	15.9
South	0.4	21.3
West	11.3	21.4
All Regions	3.9	20.6

SOURCE: KPMG PEAT MARWICK

the benefit isn't used much. Says Oxford's Snow: "Typically, the company is coming from indemnity insurance. In some groups, you see as high as 30 percent out-of-network at first, but it goes down to less than 10 percent in a year or two."

With United HealthCare's Choice Plus, only 5 percent of claims come from nonparticipating providers, says Ron Colby, senior vice president for product management.

Growing Pains Ahead?

POS plans are expected to continue their rapid growth in the next few years, but their long-term outlook is uncertain. Some analysts forecast an eventual large-scale migration to HMOs, provided HMOs can continue to offer less-expensive plans. Others maintain that point-of-service plans are not steppingstones to HMOs but

BENEFITS

provider of comprehensive mental-health services, ran into another problem when it set out to replace its traditional fee-for-service insurance last fall. Explains Marcia Torre, human-resources and benefits manager: "We explored a lot of different options and signed up with one plan. Then we found that one of the major hospitals that people use wasn't on the provider list—it was going to be an inconvenience for our staff."

After two months, United Services switched to Physicians Health Services, which she says has the largest number of doctors and hospitals in the area.

Tips For Picking A Plan

While the most important element in selection is to make sure the doctors and hospitals are, for the most part, those your employees prefer for health care, there are other steps to take, too.

Before signing up with an insurer, get opinions from the company's clients about its service.

For example, Mirza of Marden Harrison asked her insurance broker about feedback from companies using the insurer. She also contacted some client companies directly.

Larry Leisure, a partner at Andersen

Consulting Group in San Francisco, says, "One of the first points to check is whether the plan has been accredited by the National Committee for Quality Assurance." The NCQA, based in Washington, D.C., assesses managed-health-care plans. (See the box below.)

There are no absolutes when comparing POS pricing with other managed-care options. Colby of United HealthCare says that Choice Plus can be less expensive than PPOs and indemnity plans. While HMOs are often less expensive than point-of-service plans, both United and Oxford say their POS plans can cost about the same as their HMOs.

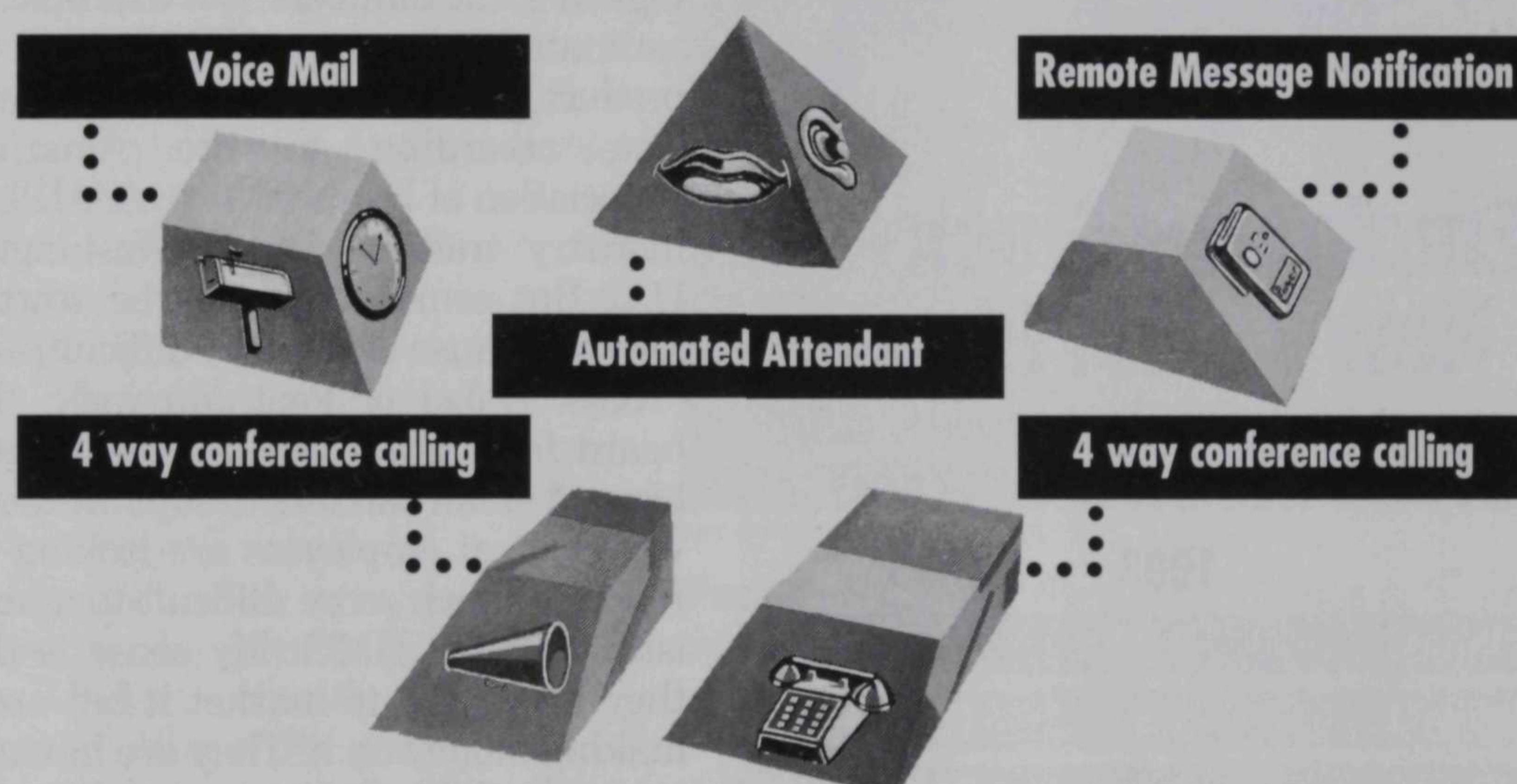
Also, one open-ended plan may be set up quite differently from another. While both Oxford and Physicians Health Services use gatekeepers—the primary-care providers who alone are authorized to refer patients to specialists—enrollees in United's Choice Plus aren't required to have a primary-care provider, and they can visit participating specialists without referrals.

Finally, once you have selected a point-of-service health plan, it's important to have educational meetings for employees. "This is a whole new way of thinking," says Torre of United Services. "If you get sick on a weekend, you don't just run to the emergency room. You call the primary-care physician."

Torre adds that Physicians Health Services "did two meetings at each of our sites. They showed a videotape and took questions." That started the program off on the right foot, she says, summing up her opinion of the arrangement: "I'm very pleased."

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The best place to begin when you're seeking information on a managed-care health plan is the National Committee for Quality Assurance, in Washington, D.C. The NCQA is an independent, nonprofit organization that measures, assesses, and reports on the quality of care and services delivered by managed-health-care plans. For example, it studies physicians' credentials and the delivery of preventive services.

NCQA offers several levels of accreditation. For the organization's Accreditation Status List and information on other services designed to help business owners make better health-plan selections, call (202) 955-3500, or check the group's site on the Internet's World Wide Web at <http://www.ncqa.org>

KOREA



If the government of President Kim Young-Sam has its way, the Republic of Korea soon will become just the second Asian nation, after Japan, to gain entrance into the 27-member economic club of developed nations: the Paris-based Organization for Economic Cooperation and Development (OECD).


Should that goal be achieved, it will symbolically complete South Korea's quest to establish itself as a top-echelon industrial nation.

But even if South Korea's entry into the OECD is delayed temporarily, the effect will merely be to lengthen, not to spoil, an incredible success story whose plot twists and turns across a 43-year span of history.

Since the 1953 armistice that ended the fighting with North Korea, the people of South Korea, now numbering about 44 million, have lifted themselves up by their economic bootstraps. As recently as the early 1960s, the nation's gross national product per capita was less than \$100. Last year, that key measure of national wealth broke the \$10,000 barrier for the first time.

Moreover, at the same time its economy was developing, Korea was undergoing the sometimes-difficult transformation from military rule to civilian parliamentary democracy.



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- A satellite with multiple solar panel arrays is positioned in the upper left corner of the frame. The background features the curved horizon of the Earth, showing a blue sky and white clouds, with a dark, cratered lunar surface in the foreground.
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KOREA

Postwar Korea never has been content to stand still, however. In fact, though the nation's recent economic performance appears enviable, it has Koreans worried.

Last year, Korea's economy grew by 9.4 percent, and growth of about 7 percent is estimated for 1996. Inflation has been running at a moderate 4 to 5 percent lately, and the national savings rate remains above 30 percent.

Yet this past summer, President Kim warned that Korea must double its total economic output by early next century and further boost its trade to ensure continuation of its hard-won affluence.

In a mid-August address, the Korean leader urged his constituents to exercise thrift in order to ease potential economic problems that could result from slowing growth and mounting deficits, partly blamed on rising domestic consumption and foreign travel.

"I am well aware of the people's concern over our economy of late. In order to reinvigorate our economy, the government is making the utmost efforts," he said.

Trade Concerns

Most worrisome, say Korean government officials, is the trade deficit, which in the first seven months of this year reached \$10.35 billion—more than the record \$10.06 billion for all of 1995—largely because of declining world prices for key exports such as consumer electronics, automobiles, chemicals, and steel.

South Korean industries have found it difficult to respond to the short-term price drops, as the high wages in the new, more affluent Korea have generally resulted in high production costs and slim profit margins.

For the long term, the economy must make a "leap forward" to



promote affluence for all Koreans, Kim said. "We will have to increase the size of our economy to \$1 trillion and that of trade to \$500 billion by the beginning of the next century," he declared.

Korea's gross domestic product was \$456 billion in 1995, up 9 percent from a year earlier, and trade last year totaled \$260 billion, up nearly one-third from the year before.

Kim is demonstrating determination to pursue those aggressive growth targets through accelerated opening of the Korean market to foreign goods and investment, which could substantially benefit the U.S. business community.

This economic liberalization—referred to in Korea as *seggyehwa*, which is translated roughly as "globalizing the economy and internationalizing society by adopting new ways of thinking"—also is key to gaining admission to the OECD.

"The world economy in the 21st century will be one in which economic borders between individual countries will be completely obscured, and only those economies offering cooperative actions to others will survive," notes Yoo Jang-Hee, president of the Korea

Institute for International Economic Policy, in Seoul.

Already, the Korean government has announced a foreign direct-investment plan that eventually will lead to the full liberalization of its market.

Under terms of the plan, most Korean industries will be fully opened to U.S. and other foreign investment

by the year 2000: The liberalization rate is projected at 98 percent.

Stronger Investment

So far, the new investment policy is working: There appears to be renewed interest in Korea by companies around the world, although they are driven by motives that are different from those of the past.

According to Tami Overby, executive director of the 800-member

107 percent in 1995, to \$645 million. That total represented a full one-third of all investments made in Korea a year ago.

Moreover, U.S. investment through the first five months of 1996 already has reached over \$307 million, roughly two-thirds of it in the manufacturing sector and one-third in the services area.

The total cumulative amount of U.S. investment in Korea, as reported by the country's Ministry of Finance and Economy, is \$4.5 billion in 1,374 individual actions.

Overby says that while it is clear to American companies that labor in Korea is no longer cheap, it is still highly educated. Moreover, Korean manufacturing skills are very good, she says.

Overby tells potential investors: "For a medium- or high-technology product, Korea's a good place for investment. But if you want to make [low-cost items such as] toys or shoes or textiles, Korea's not the place."

For its part, the Amcham has changed its strategy from "confrontation" with the Korean government over remaining market protections to "cooperation" in facilitating positive change, Overby says. The organization's top officials decided to try shedding their "Korea-bashing" image by taking a more balanced approach on the issues, believing that future change can best be encouraged by recognizing the positive things that are being done.

U.S. Policy

Indeed, many of the Amcham's priority issues involve lobbying for change in American policy, not Korean. Examples include support for removing Korea from the U.S. "Priority Watch List" for violations of intellectual-property rights.

Overby is quick to add, however,



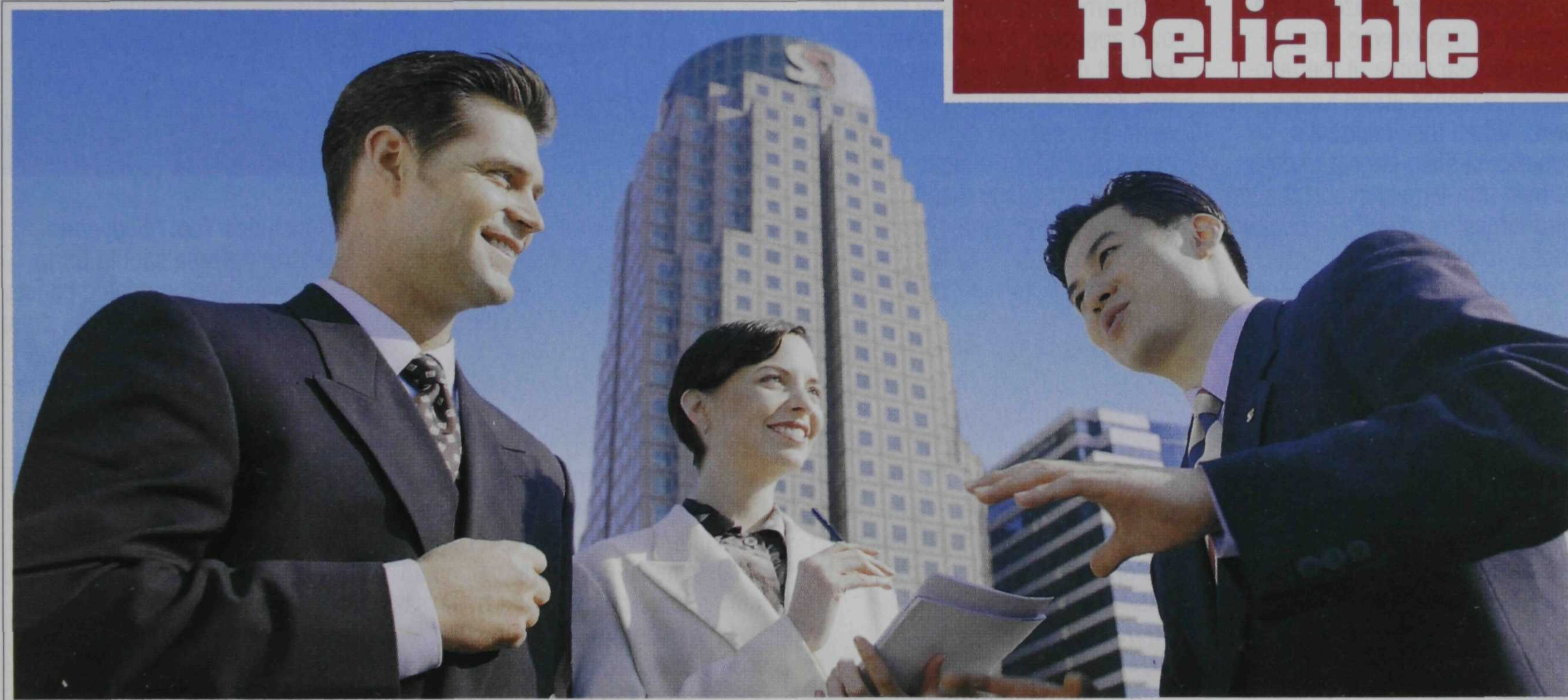
American Chamber of Commerce (Amcham) in Korea, "U.S. investment is coming back into Korea, but not so much in the manufacturing areas. It tends to be more service-oriented now, or from companies that want to tap into the Korean market."

After remaining fairly steady at just above \$300 million per year from 1992 through 1994, investment from the U.S. surged over

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KOREA

that Amcham officials have not retreated from their mission of addressing the remaining problems facing American companies in Korea. "We have a long list of issues, actually," she says. Those issues deal mainly with market access, faster financial reforms, and enforcing intellectual-property rights, she says.

The Amcham also is trying hard to educate Americans about Korea, from the person on the street to U.S. senators and representatives, who, according to Overby, are relatively uninformed when it comes to matters concerning Korea.

"You would be amazed at the number of people who are surprised to hear some of the [economic] statistics about Korea," she says. "When they realize it's [America's] sixth-largest trading partner, fifth-largest export market, third-largest market for agricultural goods, [and overall the] 11th-largest economy in the world, they're stunned."

"And there is so much more potential for companies that want to tap into the consumer market. There is a very large middle class here with a pent-up demand for foreign products."

The Amcham is still concerned about the foreign-investment climate, however, because Korea

it must have technology to stay competitive," she says.

In the end, Overby believes, Korea will have to further accelerate the pace of investment reforms as officials see that other Asian countries are passing them by. "They won't do it because of U.S. trade pressure," she says. "They're certainly not going to do it because of the Amcham. But they will have to make changes for the good of the country itself. They are on the right road and in a good position to survive and compete very well."

Bullish Prospects

Each American company takes its own approach to the Korean market, but most firms generally agree that Korea is unique and, therefore, requires a special approach. A company cannot bring in the same marketing strategy that it uses in Japan or Europe and expect it to work in Korea. "They have to understand the Korean consumer," Overby says.

In summing up the feelings of Amcham officials about Korea's investment climate, Overby says: "It is not an easy market; things are not always clear. But we are bullish on Korea, and we believe that companies that don't at least look at the opportunities here are going to miss the boat."

down a bit. One need only look at the short 40-year history of development to see that the Koreans can do whatever they put their minds to, and we truly believe they

do not earn their Korean manufacturers much profit.

■ The Korean capital market and domestic financial sector should be the last ones to be liberalized.



will be market leaders—in fact, they already are, in several sectors. We don't see any reason that's going to change. We're optimistic."

Overcoming Misunderstandings

Although also optimistic, the International Economic Policy Institute's Yoo reminds Americans that his country's economic transformation will not come overnight.

"Despite all-out liberalization and internationalization efforts by firms and the government, there still seems to be a gap between what ordinary Korean people perceive as Korea's economic capacity and what the Korean economic capacity really is," Yoo says. "This gap may largely be attributed to the various protective policies in the past, which may have often misled the Korean people's consciousness, customary practices, conceptions, and ways of thinking."

Among the examples of misunderstandings that still linger in the minds of many Koreans, Yoo says, are that:

■ Foreign investment in Korea is merely market infringement by foreigners.

■ Consumption of imported goods is unpatriotic behavior.

■ Increasing exports is highly desirable even if exported goods

Concludes Yoo: "*Segyehwa* means that Korea should try to throw away such outdated conceptions among its own people, draw more positive domestic support for the government's internationalization policy, and eventually reform the nation to become a leader in the world community. To this end, the government has prepared and implemented a nationwide reform paradigm that covers not only economic policies but also the educational system, the judicial system, employment practices, the national policy information system, the expert training program within the government, and the education of its citizens on economic and environmental issues."

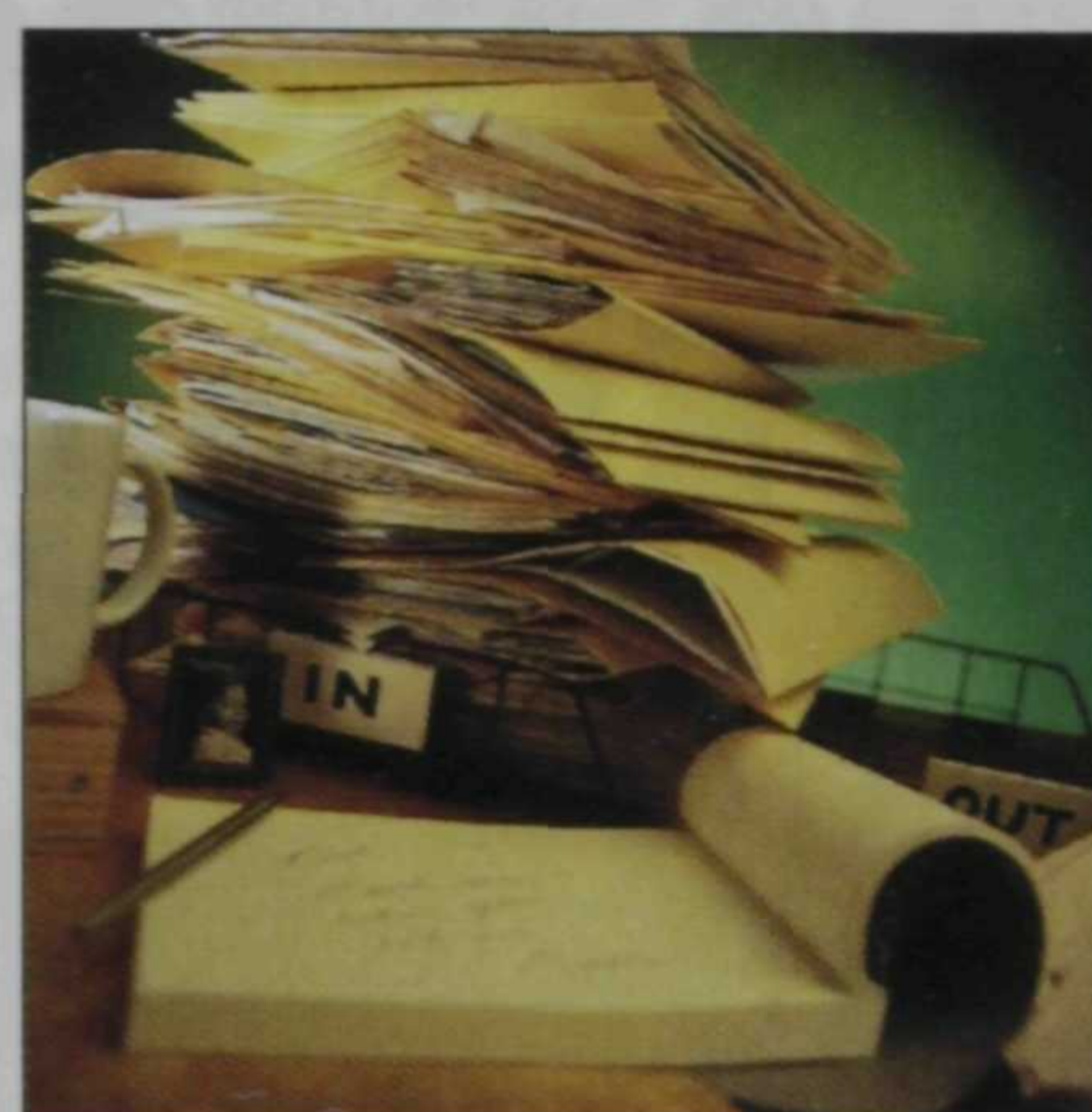
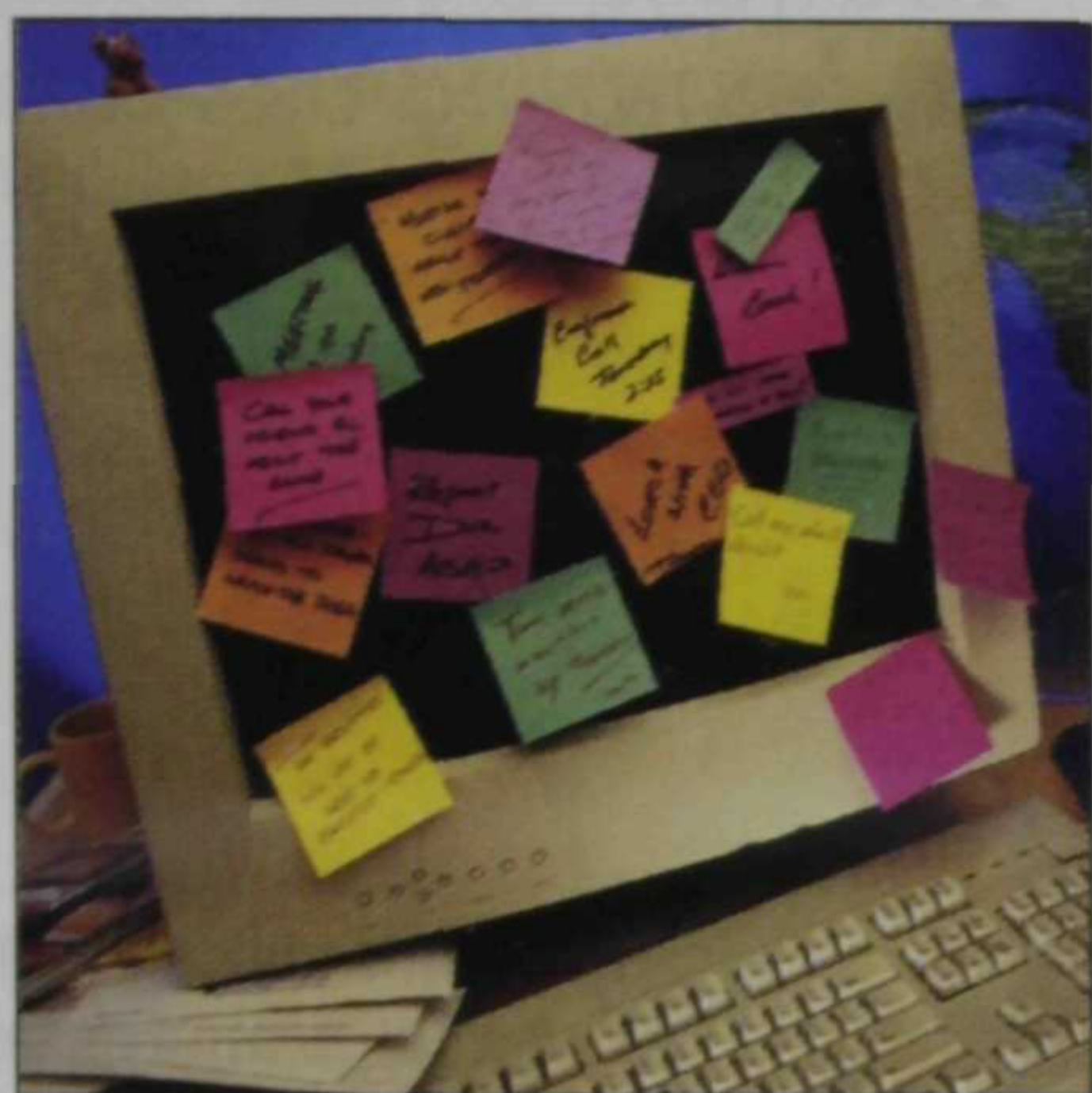
"For the success of these reform programs, there needs to be both domestic support and international cooperation."

"Market opening is only one part of the nationwide grand redesign. Physically opening markets, together with changing people's mind-set, is what Korea badly needs at this juncture in its growth. Only when *seggyehwa* is successfully implemented this way will the government's open-door policy be able to gain full understanding and recognition from both the domestic and the global communities."



needs technology. "Korea needs to make a big jump. It is in transition from a low-wage, labor-intensive economy to a high-wage, medium-technology-intensive economy, and

"Unification will come [to the Korean peninsula] sooner or later, and when it does, there will be an enormous market created. We think labor costs probably will go



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MANAGING

A Less-Stressed Work Force

By Roberta Maynard

They don't climb corporate ladders. The treadmill is not for them—except during a workout. Seeking excitement and overall fulfillment, they'll walk away from too much work or too much stress if it threatens to rule their lives. They are the members of Generation X—young adults born after 1964. And though many so-called Xers are now workplace veterans, managers are still struggling to find effective ways to supervise them.

Greg Matusky, 35, says he often has to suppress notions associated with his own baby-boom generation when managing his firm's seven employees—five of them under 30. President of Gregory Communications, his public-relations firm in Ardmore, Pa., Matusky just barely qualifies as a baby boomer. But he sees himself as having stereotypical boomer work traits: He's a go-getter with a formal approach to management.

Matusky says the strategies that motivated him in the early 1980s, when he was employed by a major corporation, simply don't work now. "The times I've tried to create competitive situations [among Generation X workers], it's failed," he says. "But when I've said, 'I need your help,' they've responded. . . . They'll give you their all if you make them part of the mission."

"People who are in their 20s today aren't as driven" as boomers, says Claire Raines, a Denver management consultant specializing in Generation X. She also is co-author, with Lawrence J. Bradford, of *Twenty-Something: Managing and Motivating Today's New Work Force* (MasterMedia Ltd., \$12.95). "They view their parents as workaholics," says Raines, "and they saw the price their parents

paid. They want more balance."

Matusky says that at his firm, "working evenings and weekends is off-limits." Whether it's because of the fragility of job security or other concerns, he says, many younger employees have decided "to treat a job as only a piece of their lives."

Bridgit Smith has worked for Matusky for two years. She's 24, has a bachelor's degree in marketing, and plans to get a master's degree. But when she has a family, she says, she won't want to sacrifice it for the job; she wants to enjoy both. In fact,

Managers face challenges in bringing out the best in Generation X employees.

though single, she already wants a more flexible work schedule so she can pursue other interests, which include cooking and biking.

Such workplace issues raised by the attitudes of many Xers are difficult, and consultants are doing a brisk business helping companies sort them out. The Wendy's fast-food chain, based in Dublin, Ohio, asked Raines' advice on attracting and retaining Generation X workers.

In the company-owned restaurants—one-third of the 4,800 Wendy's nationwide—about 73 percent of the workers are Xers.

Raines worked with Wendy's on a training program for managers. Implemented last year, the program focuses on matters that, according to research, are important to Generation Xers, such as whether there's a sense of fun in the workplace, recognition for good work, cross-training and self-development, and provisions for flexible scheduling.

Small companies are also seeking help on such workplace concerns, says Generation Xer Bruce Tulgan, who quit his job as a Wall Street lawyer to teach businesses about Generation X workers. Tulgan is the author

of *Managing Generation X* (Merritt Publishing, \$19.95) and is CEO of Rainmaker, Inc., a New Haven, Conn., consulting firm that helps companies improve their connections with their Generation X workers. Here are some of his suggestions:

- Focus on results, not processes.
- Set clear deadlines for tangible results.
- Treat Xers' questions as opportunities to teach.
- Give them freedom to manage their own time and work; avoid micromanaging.
- Provide opportunities to interact



PHOTO: ©SAL DIMARCO JR.—BLACK STAR

Encircled by Generation X: Communications-firm owner Greg Matusky, center, fosters a sense of mission among employees (clockwise from top left) Anthony DeFazio, Andrea Moravsky, Joel Grantham, Jennifer Ishmael, Bridgit Smith, and Claire Russell.

with others; Xers work well in teams.

■ Expect Xers to thrive in corporate cultures that value the individual.

■ Support the quest to learn and improve skills. They see their résumé—not the system—as their ticket to job security.

■ Provide constant feedback that is specific and accurate.

■ Celebrate successes.

Generation Xers want to make a meaningful contribution. "I like having responsibility and being in charge of my own destiny," says Smith of Gregory Communications. "I don't know if I'd like lots of bureaucracy and politics. By working for a small company, you have more opportunity to prove yourself."

Her boss, Matusky, gives his young employees direct client contact and ways to expand their knowledge. "I think they're looking for ways to develop themselves," he says. "As an employer, you've got to feed that need." Managers who insist on having Gen Xers pay their dues with busywork risk losing them.

Xers' nondeferential attitude toward authority particularly confounds old-school managers, says consultant Raines. Gen Xers continue to challenge managers about why they should do a certain task—even after they've been given a reason—if they don't see the sense of it, she says. "I have

managers constantly complaining to me that there isn't the fear [of bosses]. That's what my work is all about—talking to frustrated managers."

But Gen Xers aren't carefree about their future. "There's a lot of fear among Xers because the old [workplace] paradigms are gone," says Leslie

Evans, vice president of Goodrich & Sherwood Associates, a human-resources consulting firm in New York City. "Boomers still had a paradigm of models. They were the transition generation. They started breaking down structures; they paved the way for Generation Xers, who are building from the ground up. Xers will have to make it up as they go along."

In fact, as work becomes more oriented to technology and information, there are segments of the generation that may not fare well, says Evans. "For those who aren't as creative, who aren't self-sustaining, the security of the system is gone. The change will be great for people who can embrace it and difficult for those who can't." **NB**

What Do You Think?

Do you have insights on managing Generation X employees? Fax us your comments at (202) 463-3102. We will consider them for a possible follow-up article on the subject.

"I like having responsibility and being in charge of my own destiny."

—Bridgit Smith,
Gregory
Communications

Xers As Managers

Much has been made lately of the oldest baby boomers turning 50; far less has been discussed about the thirtysomething members of Generation X who now are becoming managers.

What kinds of managers do they make? How do their styles affect the nature of management? These more flexible, more casual, less authoritarian, more team-oriented individuals are almost certain to hurry along such workplace trends as telecommuting, casual attire, and the flattening of hierarchical structures, experts say.

"Their most important attributes as managers will be comfort with technology and the fact that they don't have authority issues," says management consultant and author Claire Raines, of Denver.

She also sees Xers as less predisposed to hidden agendas than their management predecessors and less interested in creating

mystique about themselves and their jobs.

As for titles and positions, "That's over. They don't care," says Leslie Evans, vice president of Goodrich & Sherwood Associates, a human-resources consulting firm in New York City.

"It will be a fundamentally different style of managing," says Bruce Tulgan, a New Haven, Conn., management consultant and author who is an Xer himself. "Our skills and attitudes will dovetail with the changing nature of work," he says. "Work will be less site-specific, and teams will continue to replace departments. The Xers' leadership style will be about facilitating those teams. The way we're likely to lead a cross-functional team is a paradigm for how we'll manage."

If this comes to pass, the reality will hit those onetime-hippie baby boomers where they live: In the workplace, Generation Xers may be the ultimate nonconformists.

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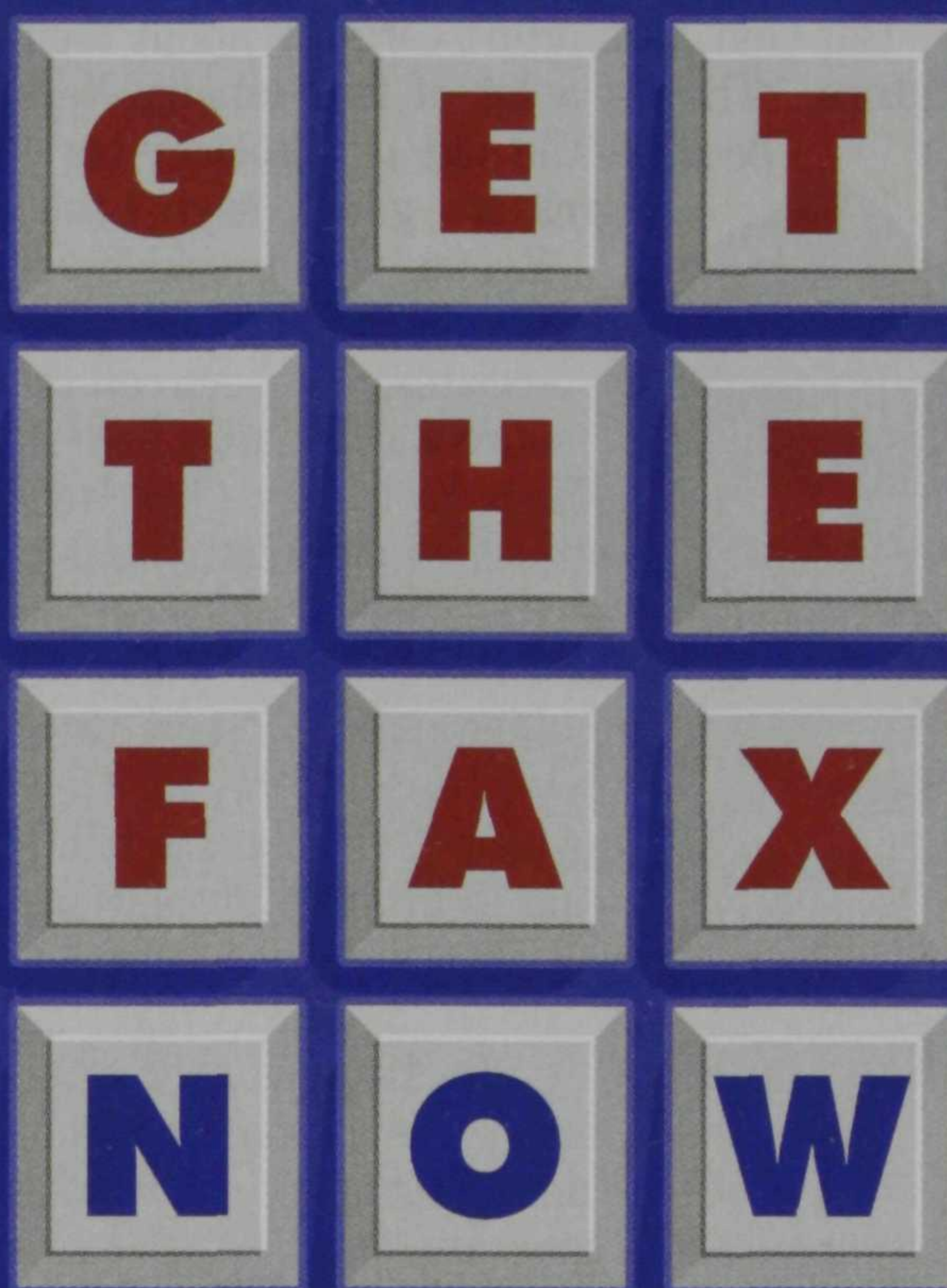
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MANAGING

When Your Business Is Twins—Or Triplets

By Michael Barrier

If you want to know what it's like to own more than one business, James B. Conn says, maybe you should ask his wife. His implication is that she finds the demands on his time a bit much. "It taxes you," Conn himself admits. "I feel sometimes like I'm stretched." He worries about whether he has thought of everything he should consider.

Conn's father founded Calvert City (Ky.) Lumber Co. in 1951. When Conn went to work for the lumber yard after graduating from college in 1980, the business was just beginning to offer metal doors and architectural hardware.

In 1989, four years after he had bought control of the family firm from his parents, Conn incorporated Commercial Door & Hardware as a separate company. He bought a former shirt-factory building in Paducah, Ky., 25 miles away, and moved the door company there in 1991.

He now has 24 employees in the door business, which distributes and fabricates metal doors, frames, and architectural hardware, and about as many in the original lumber business.

But that's not all. Conn's businesses are multiplying. He started another division of Calvert City Lumber, called Commercial Plumbing Supply, about five years ago. Seven of Calvert City Lumber's employees now work for that division, and its sales in 1996 have been running almost double last year's.

Around the same time, Conn started a division within Commercial Door called Atlas Door of Paducah to install and service overhead doors. That division now employs four. Conn has other interests, too, including a residential subdivision he has developed with a partner.

While no one actually counts the number of small-business owners who own more than one company, multiple ownership certainly isn't rare. Like Conn, many such owners add new companies that are extensions of existing businesses. In the Detroit area, for instance, R.J. "Ric" Gonzales

Owning more than one business can be a challenge, a headache, and a source of great satisfaction.

came a separate company called Gonzales Graphics & Communications. The auto-makers' downsizing meant that the Big Three still needed to staff up with temporary personnel for peak periods; Gonzales filled that need by creating a company called Gonzales Contract Services.

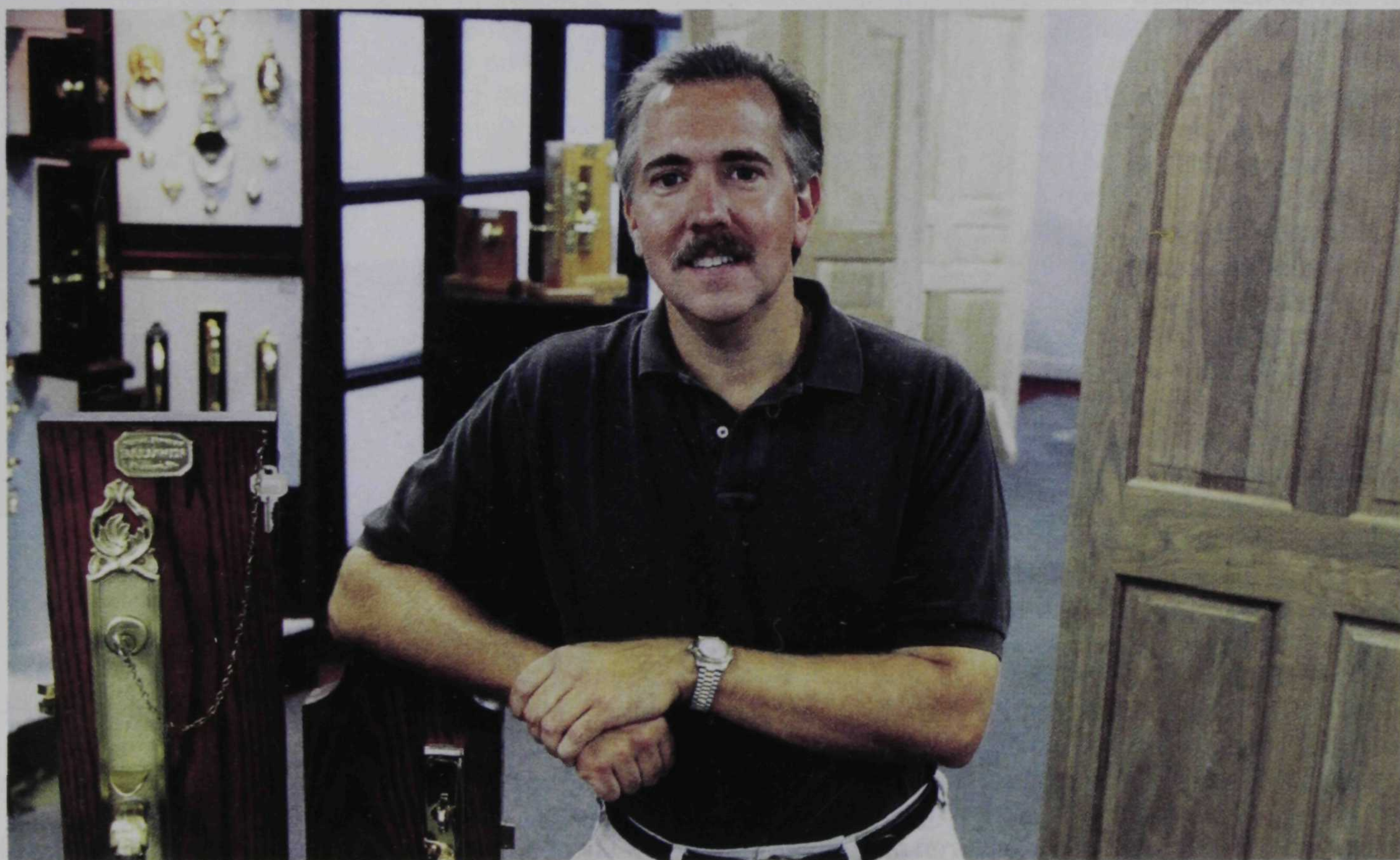


PHOTO: ©CATHY CLARKE

Kentucky businessman James B. Conn, seen here at Paducah-based Commercial Door & Hardware, says that owning more than one business sometimes leaves him feeling "stretched."

heads a conglomeration of seven companies with around 900 employees. "The main company," he says, is Gonzales Design Engineering, based in Madison Heights, Mich.; Gonzales and his father founded that company in 1975, two years before the senior Gonzales' death. Gonzales Design Engineering designs tooling and automation for automobile companies—"basically, the equipment they use to put automobiles together," Gonzales says.

In the late '70s and early '80s, as the Big Three automakers began to downsize, Gonzales expanded into process engineering, which involves designing not just the machinery but the processes by which cars are made. That led in turn to creation of a graphic-arts division, which has since be-

For multiple owners like Gonzales and Conn, there are some specific advantages that flow from managing businesses that offer related products or services. Cross-marketing is perhaps the most important benefit.

"They complement each other," Conn says of his businesses. For example, he explains, the lumber yard will refer homeowners to Commercial Door's Atlas Door division when they need overhead garage doors.

Ric Gonzales says that the advantages of owning multiple businesses can go far beyond that. "It gives people in your employ more of an ability to career-track," he says. "If we have an opening in one of our other companies or other divisions, we advertise it

MANAGING

internally first, throughout all the organizations, before we go outside."

Having multiple companies gives him the flexibility to deal with changes in the market, Gonzales says. It enables him to look into "different ways of doing things, maybe creative ways of pricing things, that can give you a competitive advantage."

On the other hand, having more than one business can exacerbate the strains that accompany the growth of almost every small business, as the owner tries to decide how to juggle multiple time demands and reduce personal involvement in day-to-day operations.

At Commercial Door, Conn says, "we've grown so fast that it's hard to find qualified people, so I find myself jumping back into the daily chores of ordering materials and doing the drawings." He's "the guy who fills in the gaps," he says, because he understands all the businesses—everyone knows they can call on him when they need help.

It's the same at Calvert Lumber, he says. Even though he's pleased with his managers there, he says, "I know how I like things done, and if I'm not there, it doesn't always get done the way I like it done." Conn feels like a parent whose children may be able to get off to school if he's not hovering over them—but may go out the door with their shoes untied.

Conn knows less about the plumbing business than about the door company or the lumber yard, and as a result, he says, delegating comes easier there: "I leave it up to the fellow who's in charge of the plumbing company to make a lot of decisions, and he's been very successful at it."

Even so, "the thought crosses my mind every day that I'd love to operate just one company," Conn says, "because it is frustrating a lot of the time that I can't spend a whole day, or a whole week, at one place without going to the other place. It's hard to get projects completed when you're in charge of them and you're not there."

In Winston-Salem, N.C., Donald C. McMillan essentially did what Conn has just thought about—he cut back. He now owns

two corporations, but they operate as three closely related businesses—two restaurants, Cafe Piau and Gisele's Fine Foods, and Simple Elegance Catering, with a total of about 39 full- and part-time employees.

All three businesses are within half a block of one another. He recently sold a fourth business, The Stocked Pot, which doubles as a cooking school and retail store.

The catering business has always been

them run the business, and I'll be just a guiding light. Right now, I'm physically involved in the catering."

Delegating—difficult so far for McMillan and to a lesser extent for Conn—"is really the key to it," Ric Gonzales says. "I know very little about any of these businesses anymore. The technology changes so fast. You've got to hire good people and turn them loose. You've got to expect that they're going to make mistakes, but you hope that they learn from them."

Delegating may be easiest to do when a new company is acquired, rather than growing out of a parent company—and especially if the acquisition is fortuitous rather than planned.

Such was the case with Rick R. Comtois. His background is in analytical chemistry; he worked for a manufacturer of atomic-emission spectrometers before starting a specialized testing company called VHG Laboratories in Massachusetts in 1984. He moved the company to

Manchester, N.H., in 1987; he had five employees.

Comtois bought two units in an industrial condominium to allow for future growth, and he rented the extra unit to Image 4 Concepts, Inc., a photo-processing firm that specialized in serving commercial photographers. "Before I knew it," he says, "they were significantly in arrears in their rent payments."

He also noticed that while he was working 12 hours a day himself, someone at Image 4 was working even longer hours—sole full-time employee Jeff Baker.

Comtois became the owner of Image 4 by assuming its debts—and with no experience in the photo-processing business. He moved his office from VHG to Image 4. "I had to make sure that Jeff was coming up the learning curve in terms of running a business," he says, "because it was never my intention to be an active part of that business as adviser or mentor or whatever."

Even though he wasn't expert in photo processing, Comtois says, it was generally clear what needed to be done, and he worked out a plan designed to save the

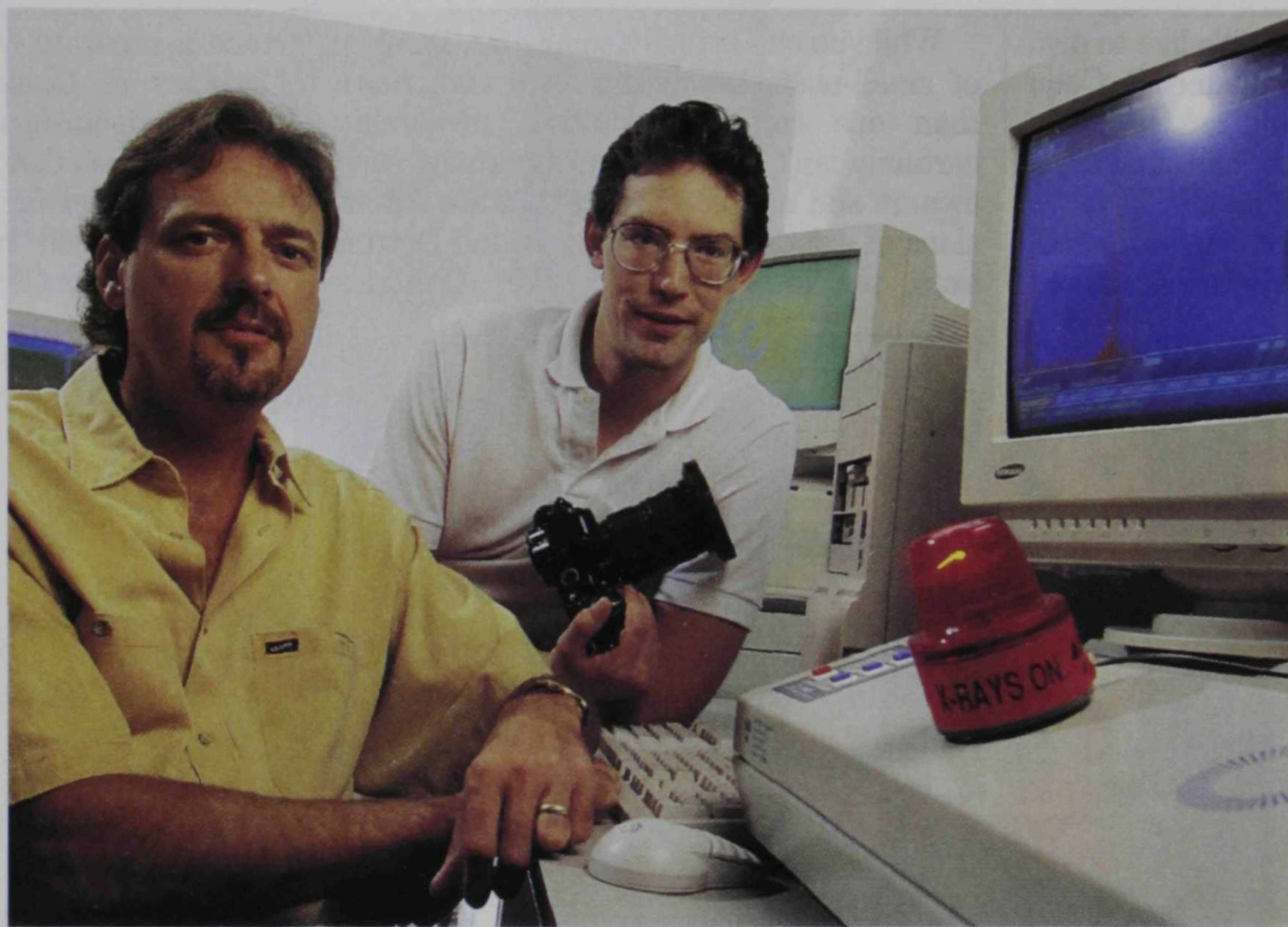


PHOTO: ©BOB DAEMMRICH

Before he moved to Texas, Rick R. Comtois, left, groomed Jeff Baker to run his Manchester, N.H., business, Image 4 Concepts.

his profit center, McMillan says, and it needed more of his attention. He'll keep the two restaurants, he says, because the food for both restaurants comes out of the catering firm's kitchen and they "give me a good presence in the community." But the store—it's about five miles from the other businesses—had to go.

As the catering business grew, McMillan says, "I found that even though I hired professionals to help me, no one really did it as well [and] with the same commitment as I did" unless he was there.

"The way people serve a table—I'd want it to be precise, and yet things would fall through the cracks," he says. "That would undermine my business." In the kitchen, too, chefs would sometimes "settle for less" where the quality of ingredients was concerned, he says, "because it was expedient."

In addition, "a lot of people, when they book our services, really expect me to be at every party, and I wasn't able to do that," he says, "because I was spending a lot of time at The Stocked Pot—even though the most competent staff I had was there."

Eventually, McMillan hopes to have enough "competent staff" that he can "let

company. "If I'd gotten involved" in the details of running the business, he says, "it probably would only have impeded the progress."

"I couldn't go back and do prints; I couldn't really go out and sell to customers—I just didn't understand what they wanted to hear. This was the acumen Jeff had."

Comtois also delegated within VHG as that company grew; by the time he took over Image 4, he says, "my function [at VHG] had gone to almost 100 percent administrative." He sold VHG in 1991, when it had grown to 17 employees, and in 1993 he moved to Austin, Texas, where he now is under contract to handle the worldwide sales and marketing for an Israeli manufacturer of scientific instruments.

Image 4, whose revenues had sunk to a level of around \$200,000 a year when Comtois took over, now has 11 employees in Manchester, and Baker—now a co-owner—expects its revenues there this year to total around \$1.3 million. Image 4 has also just purchased control of a three-employee

Delegating is the key to running multiple businesses. Hire good people and turn them loose. And hope that they learn from their mistakes.

—Entrepreneur Ric Gonzales

photo-processing firm in Austin, and Baker says that they're shooting for revenues there in 1997 of \$500,000.

Comtois' willingness to take on an unfamiliar business and his determination to delegate responsibility are equally visible in Gordon Thomsen, a Mitchell, S.D., businessman. Like Comtois, Thomsen sold the company on which he built his success—but when Thomsen

sold Trail King Industries, Inc., a manufacturer of specialized trailers, in June 1995, Trail King had revenues of more than \$70 million a year and close to 500 employees.

Thomsen is 69 now, but he says he sold only because the offer was so good, not because he had any thoughts of retiring. He still owns a radio station, two gift shops, a franchised sign shop, an advertising agency, and a company that silk-screens T-shirts.

Thomsen is a "very strong" believer in delegating. Echoing Ric Gonzales, he says that his managers "are always in on the decision making. If they're in on making a decision, they're going to like it a lot better."

So confident is Thomsen in his managers that he spends six months of each year at his home in Tucson, Ariz.

In effect, Thomsen invests time in the early stages of his ownership of a new business, as Rick Comtois did with Jeff Baker, in the expectation that he can cut back later. He devoted many hours to his radio station when he first bought it, he recalls. Then, "once I understood the business, once I understood where I was going, and whom I wanted to be the key people, I was able to get some confidence that it would run by itself."

Similarly, Ric Gonzales says that at some of the newer companies in his group, "we're still getting our systems in place and still kind of learning what those businesses are all about and what their various competitive pressures are."

The Thomsen and Gonzales models suggest just how satisfying a multiple-business setup can be, if the owners delegate sincerely and intelligently.

One pleasant byproduct of delegating, Thomsen says, is that his people sometimes surprise him "by exceeding even the goals that I've set. . . . At our radio station, we're hitting [monthly revenue totals] that I never dreamed we'd hit." **NB**

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Family Business

Clamping the information lid too tight; seeking to escape a downward spiral.

PLANNING

A Secret About Secrecy

By Drew S. Mendoza and Craig E. Aronoff

Entrepreneurs tend to be close-mouthed and to play their cards close to the vest. They regard information as power and a competitive edge, so they protect it carefully. Moreover, given the crushing demands of a growing business, they have little time for the meetings and memos required for information sharing.

While it's possible for a strong and forceful entrepreneur to achieve considerable business success engaging in very limited communication, ultimately business and family growth will be stunted, if not destroyed, by too little sharing.

The outcomes of too much secrecy can include inadequate successor development; the failure to build a strong management team; lack of coordination, planning, and control; and alienation, resentment, and conflict among shareholders and family members.

The tendency toward secrecy can be reinforced by the professionals to whom business leaders turn for advice. Attorneys often believe in the "good witness" theory, which calls for providing as little information as possible. Trust officers and bankers rightfully view secrecy about their clients' affairs as the height of professionalism.

With some justification, advisers may remind the dominant owner/manager that there is no legal obligation to share

information about matters such as business conditions, personal finances, or estate plans with *anyone* else, including family members.

Of course, the nature of our legal system is adversarial. Consequently, anyone other than the client can be viewed as a potential adversary—even a spouse. From that extreme view, only fools expose themselves to the risks that ensue from offering trust and sharing information.

The tendency toward secrecy also may be reinforced by the entrepreneur's experience in the business and the family. Weaknesses can be revealed when information is provided. Sharing data, plans, or results can leave one open to discomfiting questions or challenges.

As a result, the business owner develops a philosophy of "it's none of your business."

The almost predictable fallout from sheltering information excessively is the erosion of commitment and trust—which leads to bad feelings, suspicion, and disputes, and sometimes to the dramatic demise of the family enterprise itself.

The good news, however, is that excessive secrecy seems to be going out of style. Family meetings are being embraced by more and more family businesses. A question we used to hear frequently was, "Why have a family meeting?" Now we hear, "How do we do it, and who should attend?"

We see many other indicators supporting the idea of purposeful communication

and information sharing within business-owning clans. A recently formed association of attorneys who work with family firms includes lectures for its members on listening and communication skills.

Professional associations of accountants and insurance specialists are training their members to be aware of the negative impact that secrets can have on the business and the family.

"Open-book management," the practice of providing employees with full knowledge

of a company's financial situation, has moved beyond being an executive fad.

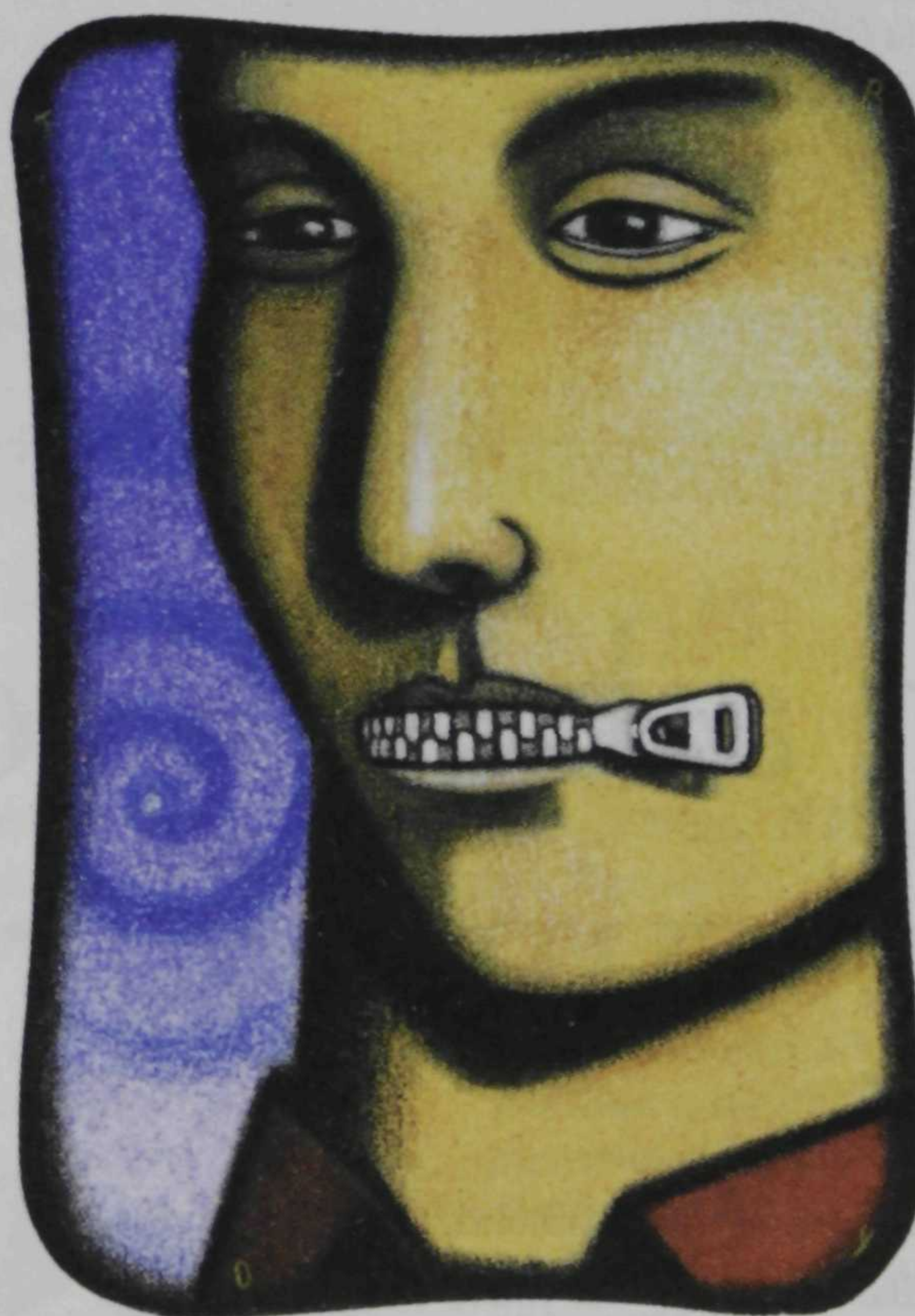
We recommend that the adult members of business-owning families consider these steps:

- Don't confuse shareholder meetings with family meetings. The former can legitimately exclude all but shareholders. Nevertheless, we recommend that presentations be made during family meetings to teach family members who are neither shareholders nor employees about the business. Not all the information shared

at a shareholders meeting need be discussed at a larger family gathering. But if the shareholders decide to withhold information, we recommend that a policy and rationale be drafted to explain why certain financial or operating data about the business is not openly shared.

- Find a way to involve your adult children's spouses in the family, and educate them about the family's business. They are the parents of the business's future leaders, employees, and shareholders, and their attitudes are crucial. If they feel alienated from the business, they may discourage their children's commitment to the enterprise.

- Share compensation information



ILLUSTRATIONS: TROY THOMAS



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Craig E. Aronoff, left, holds the Dinos Chair of Private Enterprise at Kennesaw State University, in Kennesaw, Ga. Drew S. Mendoza is the founding director of the Family Business Center at Loyola University Chicago. Both are principals in the Family Business Consulting Group, Inc.

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FAMILY BUSINESS

openly, at least with shareholders. No matter what you are paying yourself, your inactive shareholder relatives generally will assume it's a lot more, particularly if they feel cut off from the business and from information about its financial performance.

■ When you use trusts as estate-planning devices, go to great lengths to teach beneficiaries about the trusts' rationale and terms. Beneficiaries, particularly those not employed in the business, often feel mistrusted when stock is transferred to a trust rather than directly to them. Thus, an estate-planning tool that protects the financial integrity of a business asset from creditors and the Internal Revenue Service can become a source of family conflict.

■ Be sufficiently open about estate planning to permit your children to deal with their own estate plans in a responsible and coordinated way. Next-generation adults are often embarrassed by an attorney's

questions in the process of drawing up a will. Because they lack answers about stock in the family business that may be their principal asset, they feel uninformed and immature.

A meeting at which the parents take the next generation into their confidence can serve as a moving rite of passage.

If a strong family is a goal your family embraces, the family business's leaders must provide the example.

A meeting at which the parents take the next generation into their confidence can serve as a moving rite of passage, building mutual respect and acceptance of ownership responsibilities.

If that initial, dramatic "breach" of secrecy is followed by regular sharing of information, chances

increase for the success of the multiple-generation family business.

The secret about secrecy is that although it can raise an entrepreneur's comfort level in the short run, it can destroy both the business and the family in the long run. And after all, family businesses are about the long run. ■

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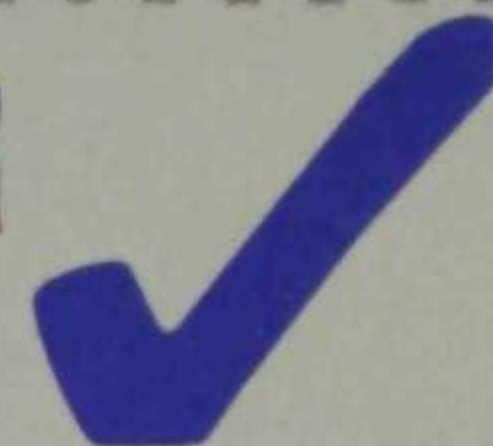
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Nov. 2-4, Dallas

"Effective Representation of Family Enterprises" is the theme of a continuing-education conference of Attorneys for Family-Held Enterprises. It is co-sponsored by Baylor University. Call (303) 984-2276.

Nov. 5, Newton, Mass.

"Emotional Intensity: Working with the Family in Business" is a seminar for professionals who work with family firms. Instructors are family-business consultants Jane Hilburt-Davis and John G. Troast Jr. Call the Cambridge Center for Creative Enterprise; 1-800-531-5755.

Nov. 6, Weston, Mass.

"To Go or Not To Go: Is Retirement an Option?" is a panel discussion on retirement issues in a family firm. Call Paul I. Karofsky at the Northeastern University Center for Family Business; (617) 320-8015.

Nov. 7, Holyoke, Mass.

"Employee Stock Ownership Plans—Are They Right for You?" is the topic of a panel discussion sponsored by the University of Massachusetts Family Business Center. Call Ira Bryck; (413) 545-1537.

Nov. 12, St. Louis

"Passing the Torch: How To Do Right and Be Fair in Succession Planning" is a seminar featuring family-business consultant and author Mike Cohn. Call the Family Business Forum of Southern Illinois University at Edwardsville; (618) 692-2668.

Nov. 12, Telford, Pa.

"When Siblings and Cousins Take Over: Building Teams That Beat the Odds" is the topic of the fourth annual Delaware Valley Family Business Conference. It features family-business consultant Ivan Lansberg. Call (215) 723-8413.

Nov. 21, Meriden, Conn.

"Perils of Pauline's Family Business" is an interactive drama presented by an improvisational theater group. Call Paul L. Sessions of the University of New Haven Center for Family Business; (203) 932-7421.

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FAMILY BUSINESS

Case Study: When A Business Goes Sour

Going from being an employee to running your own business is often viewed in positive terms: You get to be your own boss, call the shots, decide your hours, and have more independence. At least that's what Larry Simon thought 15 years ago when he quit his supervisory job at a manufacturing company to become the third-generation owner and manager of Simon's Department Store.

Larry's grandfather started the store more than 60 years ago, and his father worked there most of his life. Larry had worked off and on at the store during his

teenage years, so when his father wanted to retire, Larry took over.

Once a thriving enterprise, the store has fallen on hard times. A large discount operation in a nearby town, part of a national chain, began draining away business several years ago. A deteriorating economic base in the Simons' rural community has eroded their business even further. Larry, 48, and his wife, Jan, 40, try to make ends

meet with only six full-time employees. They tried to sell the business last year and, not surprisingly, found no takers.

The Simons are frustrated by the long hours, government regulations, and constant cash-flow problems. "Jan and I are close to burning out," says Larry.

Nonetheless, they need to continue the business because they have two young daughters to care for and are still a long way from retirement. "A 9-to-5 job sounds awfully attractive to us both, but we can't afford to just walk away," says Jan. "What can we do?"

Response 1

Now Is The Time To Make Changes

Unfortunately, owning and running your own business doesn't mean you'll really be able to "call the shots" and be free to work when you want. Smaller, service-oriented businesses almost always require full-time attention from their owners, as the Simons have discovered.

Larry and Jan need to do some brainstorming together about their options and weigh each possibility carefully. To a great degree, the options will be based on their personal goals and on their objective assessment of area business trends, population patterns, and the competitive situation. If they choose to redefine and reposition the business, most likely they will be recommitting themselves to long work hours, added financial commitments, and continued pressures.



PHOTO: ©HANS SCOTT

Leonard Geiser, director of the Family Business Program at Goshen College, in Goshen, Ind.

The Simons sound like they would be happier working for someone else, with more-regular hours. If they determine that is what they want, along with providing for their daughters and their own retirement, now is the time for Larry and Jan to make some changes, while both are of a more employable age. They still have time to prepare for their retirement years, and they should be able to

provide for their children's needs.

Selling a marginally successful business in a declining market may not be possible. Simply closing the business now would probably be the best option and would be less costly than continuing to run it until there is little value to be recovered.

Closing a family firm is difficult, but unless it is financially solid and has a promising future, it might be better to let the store go and move to other employment.



Response 2

An Antidote For Burnout

The essence of this case is a family with income needs and a couple of breadwinners who are burning out.

Burnout, in my experience, doesn't come from working too hard but rather from not doing what you truly enjoy doing. When I started my own business 17 years ago, I discovered that enjoying a significant portion of my work is what kept me energized.

Should Larry and Jan sell the business and work for someone else, or find a way to turn the business

around and make it more fun to run?

What would give them some satisfaction or a sense of making a contribution? I personally would look for a new growth opportunity in a focused, niche business and give it my all.

Of course, it would take more than a 9-to-5 day for years to come. But I would turn the department store into a unique restaurant and novelty-goods store or a combination antique store, coffee shop, and bookstore, or even become a specialty retail franchisee.

I have seen local merchants affected by competition from the national chains do all of the above conversions and do well, even in economically depressed areas. Financing for the conversion could come

from refinancing the underlying real estate and, one hopes, from a well-cultivated, multigenerational relationship with a local bank.

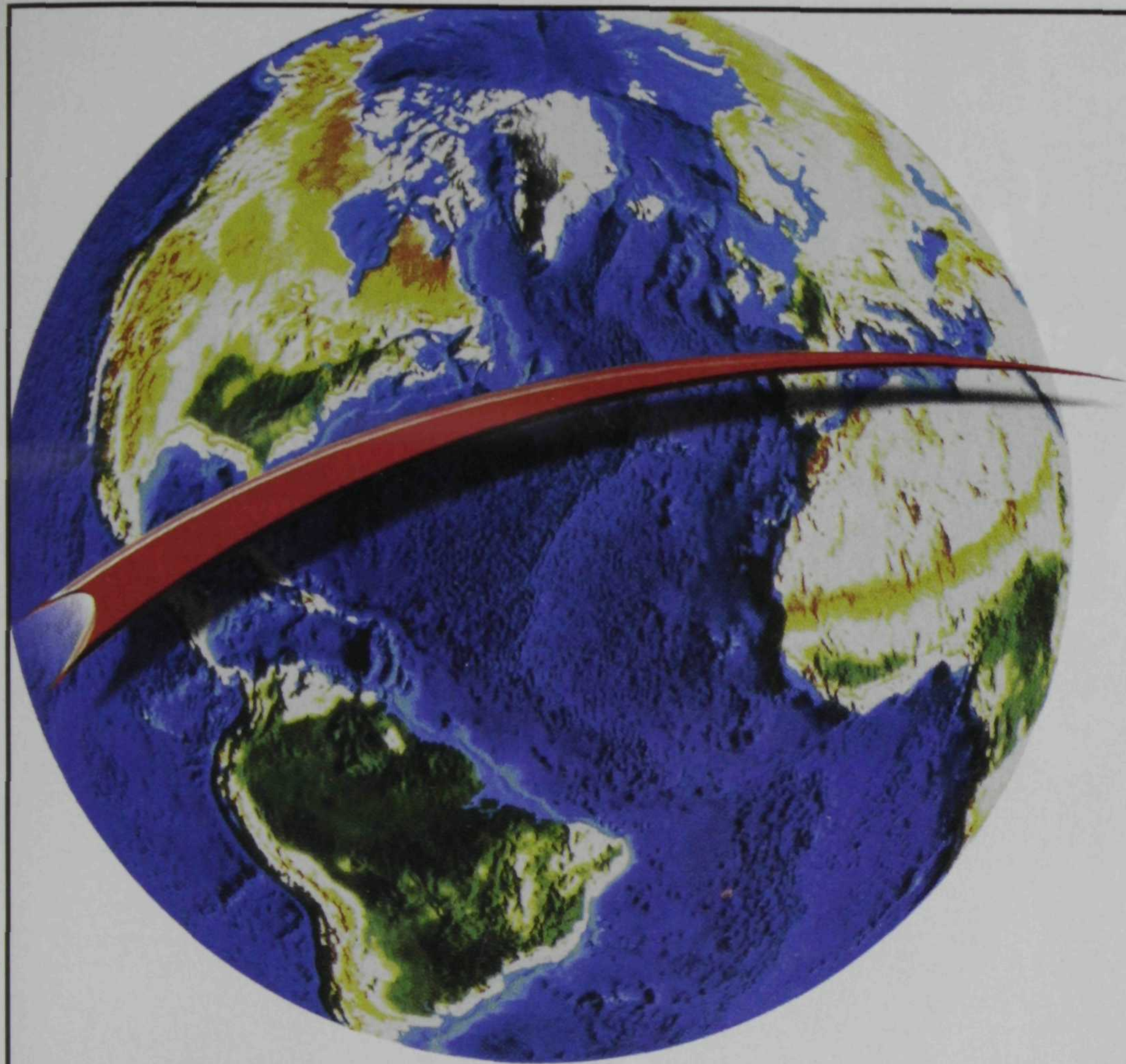
The answer lies in choosing an option that passes this test: Will it both provide personal satisfaction and enjoy a competitive advantage? If it does, go ahead and burn in that new growth opportunity with hard work and the satisfaction that comes from doing something you love to do.



PHOTO: ©BRUCE ZAKE

Ernesto J. Poza, a professor of management at Case Western Reserve University and a family-business consultant in Cleveland.

This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute and edited by Georgann Crosby, a consulting partner in the Family-Business Roundtable, a consulting organization in Phoenix. Identities are changed to protect family privacy. The authors' opinions do not necessarily reflect the views of the institute. Copyright © by the Family Firm Institute, Brookline, Mass.



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Learn. Play. Nap. These are words common to York Street . . . A place of business where coloring books and text books are routine.

Wall Street meets York Street at York Street Project. Here, working professionals invest in the future of needy children and their mothers. York Street helps these children and their mothers by increasing their value on the job market. Daniella Vasquez earned a high school degree and received job training at York Street—her son, Carlos, finished

kindergarten at York Street while they lived there. Today, Daniella is a business owner and Carlos is an "A" student . . . they began at York Street Project, using its programs to improve their lives.

Kenmare High School is a fully accredited alternative high school, which includes a curriculum of remedial work, an array of core and elective courses, job training, career guidance, and ultimately a high school diploma for young women, who previously dropped out of school.

St. Joseph's Home assures 18 months of supportive communal living for homeless mothers with children. As they strive to improve their own lives, counseling and advocacy are provided to help them secure permanent, affordable housing.

The Nurturing Place is a nationally recognized Childhood Development Center for children, ages seven months to five years, of mothers living at St. Joseph's Home or attending Kenmare High School.

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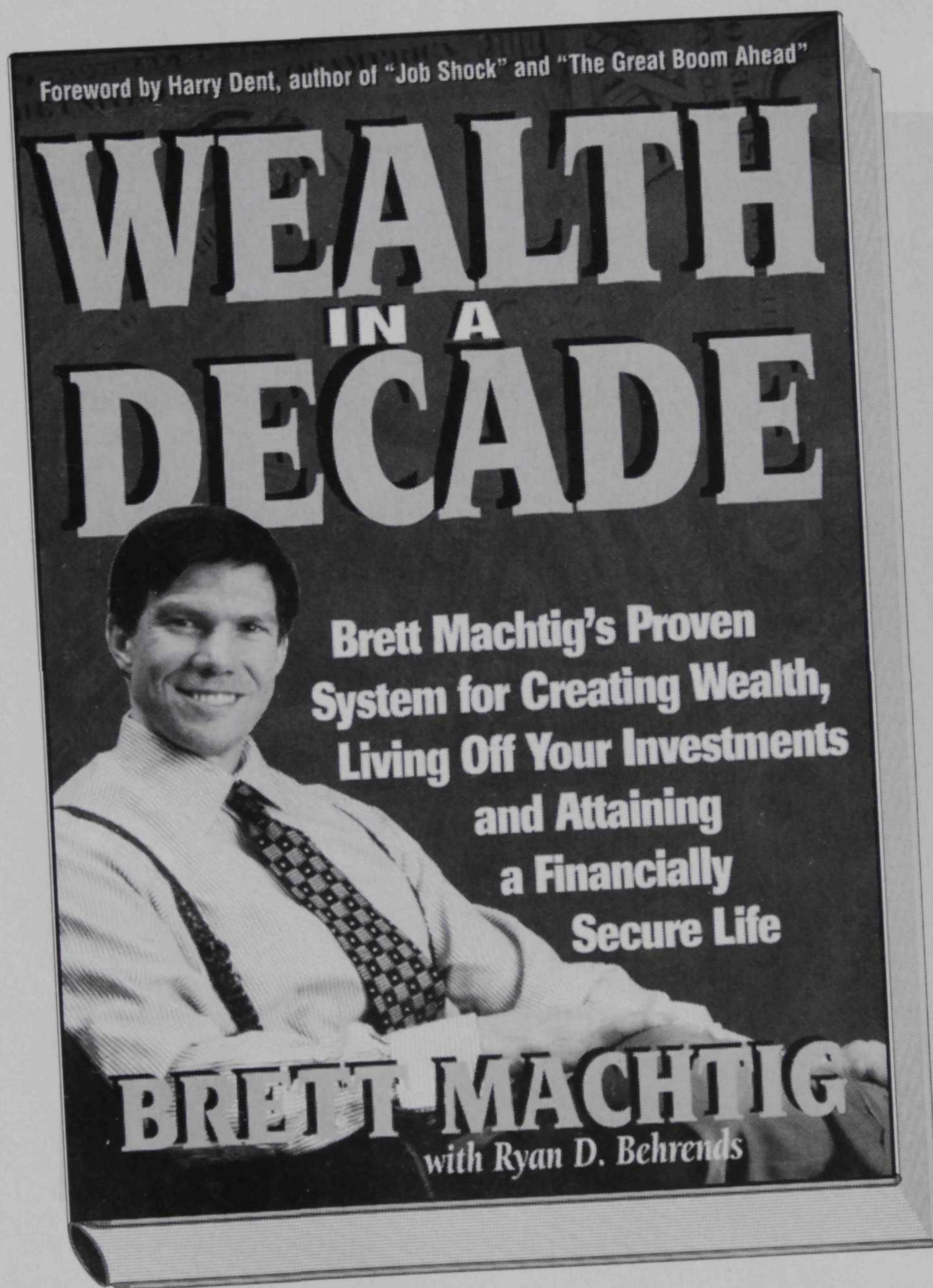
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SPECIAL REPORT

Luxury Cars For 1997

By Julie Candler



hen music-store executive Dan Marshall recently looked over a 1997 Buick Park Avenue Ultra at Glenn Buege Buick, in Lansing, Mich., he

was amazed at the abundance of what he calls "gizmos" on the all-new car.

For example, the Ultra has a monitoring system that warns if any tire's air pressure is low. Another feature, designed to prevent battery rundown, automatically shuts off any lights left on after the car has been parked for 10 minutes.

Then there's a "head-up" display, which shows the car's speed as well as high-beam, turn-signal, and other information on the inside surface of the windshield. And there's variable power steering, which eases wheel-turning when parking and adds steering resistance at higher speeds.

This \$34,995 Buick isn't alone in its array of technological features. Its package designed for extra comfort and safety reflects an industry trend to put more luxuries than ever in luxury automobiles.

"For somebody who wants a safe, comfortable, quality ride—knowing that tire pressure is OK and the battery won't run down if they park and leave the lights on—this car gives you a high degree of confidence," says Marshall, 42, president of Lansing-based Marshall Music Co., which sells, leases, and services instruments throughout Michigan.

The Ultra is one of many hot-selling "entry-level luxury cars" that automakers are targeting at executives in their 40s. Many of the cars are midsize models with all the elegance and prestige of bigger cars, and most are priced at \$30,000 to \$37,000.

"There is a \$40,000 luxury plateau," says Bruce Caudill of Kent, Ohio, chairman of Lincoln-Mercury's National Dealer Council and the owner of Kent Lincoln-Mercury. Top sellers in the luxury categories, he says, are cars in the middle to high range of the \$30,000-to-\$40,000 bracket.

Total U.S. sales of domestic and foreign luxury cars dropped slightly last year, to 1,173,234 from 1,215,877 in 1994, according to *Ward's Automotive Reports*. Sales were also down 9 percent for the first six months of this year compared with the same period last year, suggesting that 1996 will finish below the 1995 level.

The flat market in luxury cars stems from two developments, according to Douglas Scott, president of Allison-Fisher,

Some Japanese models' prices have been lowered for 1997, and the Japanese companies may regain some lost market share, analysts say. Both Cadillac and Lincoln have responded by reducing their prices.

Although the luxury-car tax dropped to 9 percent from 10 percent at midyear, Scott believes the decline will have little impact on sales. The levy is on the amount of the transaction price that exceeds



PHOTO: ©SANTA FABIO—BLACK STAR

The luxury features of the 1997 Buick Park Avenue Ultra intrigue music-store executive Dan Marshall, who looks over the car at Glenn Buege Buick in Lansing, Mich.

Inc., a Southfield, Mich., market-research and consulting firm. The first cause, says Scott, is a shortage of products from the U.S. and Japan to compete with luxury cars imported from Europe.

The second reason is the value of the Japanese yen in relation to the dollar. As the value of the yen shot up, Japanese cars became more expensive in U.S. markets. In the long run, both problems will be resolved, says Scott.

Japanese car-price pressures already have begun to ease with the recent strengthening of the dollar and with cost-cutting efforts by Japanese carmakers.

\$34,000. The tax on a \$44,000 luxury car thus would be \$900, down from \$1,000 under the previous rate. The tax will drop to 8 percent on Jan. 1 and will decline by a percentage point each succeeding Jan. 1 until it expires at the end of 2002.

One small but noticeable dent in luxury-car sales, according to Scott and other analysts, has been made by sales of luxury sport-utility vehicles. "The bite is not gigantic, because when most people want to enter the luxury-vehicle market, they will do it through a car," Scott says. Nonetheless, competition from sport-utilities has motivated luxury-car makers

SPECIAL REPORT

such as Lexus and Acura to introduce their own plusher versions of the Toyota Land Cruiser (the Lexus LX 450) and the Isuzu Trooper (the Acura SLX, marketed in partnership with Isuzu).

Innovations in mobile communications are expected to continue in luxury cars. After Lincoln introduced its RESCU roadside-assistance and emergency-response system as an option on the Continental in February, demand for the system exceeded

restaurant reservations. And if an air bag deploys, an emergency signal is sent to the OnStar Center.

Luxury cars continue to make safety innovations. Anti-lock brakes, for example, were first introduced on luxury cars and now are dropping in price and becoming more common as standard equipment on less-expensive cars.

For 1997, Cadillac adds stability enhancement through an integrated Chassis

especially low beams, also contributes to the cars' safety.

Following are many of the major features and innovations on 1997 luxury cars. The first group consists of cars priced above \$35,000. In the second group are so-called near-luxury cars, priced at \$25,000 to \$35,000. The prices given do not include destination charges.

Over \$35,000

Acura

The smooth and quiet 3.5RL, Acura's flagship sedan, arrived this past spring. Its base model, priced at \$41,000 and slightly bigger than the Legend it replaced, has a 3.5-liter V-6 engine mated with an electronic four-speed gearbox.

The 3.5RL's premium package, priced at \$4,000, includes traction control, heated seats and mirrors, burl walnut trim, and a six-disc CD changer in the trunk. An optional in-dash navigation system uses global-positioning satellites to inform drivers of their exact position and the best routes to take. The \$2,000 system is available only for cars sold in California but is expected to be expanded to other states.

Audi

With sales through August up 62 percent over the same period last year, Audi says it is the fastest-growing luxury brand sold in the U.S. In October the A8 3.7 and the all-wheel-drive A8 4.2 quattro arrived. Both are four-door, four-passenger sedans with low hood lines and aluminum bodies.

Audi touts the recyclable, lightweight aluminum as being durable and resistant to dents and corrosion. It reduces the weight of the vehicle by 40 percent but adds structural rigidity. The 32-valve, 3.7-liter V-8 produces 230 horsepower, and the 32-valve, 4.2-liter V-8 gets 300 horsepower.

The A8 will be the first vehicle sold in North America to offer six air bags, including side air bags for both front and rear outboard occupants.

An optional warm-weather package includes an electric sunshade for the rear window and manual sunshades for rear side windows, as well as a solar sunroof that generates electricity to operate a fresh-air ventilator when the car is parked on hot days. The prices are \$56,900 for the 3.7, \$64,400 for the 4.2 quattro.

An all-new midsize A6 is expected to be introduced in 1997 as a 1998 model.

BMW

BMW's high-performance, four-seat sports car, the M3, is available as a four-door sedan or a coupe for 1997. Equipped with



Audi A8



Bentley Continental R



BMW 540i



Infiniti Q45

Ford Motor Co.'s expectations.

At General Motors Corp., an advanced system called OnStar arrives for all 1997 Cadillacs except the Catera. OnStar is an optional bundle of services that uses satellite technology, cellular communications, and advanced vehicle electronics. The integrated system (cost: \$895 plus a dealer installation charge and a monthly service fee of \$22.50) allows Cadillac's 24-hour, 365-day OnStar Center, in Farmington Hills, Mich., to respond when a customer pushes either of two buttons—for roadside assistance or for emergency response. An operator at the center can pinpoint the vehicle's exact location and send help.

Among OnStar's other features: A motorist who has locked the keys in the car can call an 800 number to have an OnStar Center operator unlock the car by remote command. A hands-free, voice-activated dialer on the car's phone enables the caller to reach an OnStar Center operator to ask for directions or for help in getting hotel and



Jaguar XJ6L

Control System, an accident-avoidance technology that uses a yaw sensor to detect if the rear of the car is sliding from side to side. If such fishtailing is detected, a computer automati-

cally applies brakes to specific wheels in a sequence calculated to restore control of the car.

Both BMW and Mercedes employ systems that momentarily apply braking on one or two wheels to correct a skid. The Audi A6 quattro with all-wheel drive can be driven from a standstill with traction at only a single wheel.

Adaptive transmission control appearing on some vehicles uses electronics to determine the patterns of the driver's car-handling habits, such as the amount of pressure applied to the accelerator pedal, and adjusts the shift program accordingly for a smoother ride.

Side air bags are becoming common in luxury cars. And a dramatic increase in the intensity of luxury-car headlamps,

SPECIAL REPORT

a 3.2-liter, 240-horsepower six-cylinder engine, its base price for both sedan and coupe is \$38,960.

The all-new 5-Series line of rear-wheel-drive, midsize, four-door sports sedans hit showrooms in May as 1997 models. Their bodies—stronger and more weight-efficient—cut down on interior noise.

Standard features include higher-torque, higher-efficiency engines—a 2.9-liter V-6 in the 528i and a 4.4-liter V-8 in the 540i. Also standard are all-season traction, including new stabilizing capability for braking while cornering; new automatic climate control with separate left and right temperature controls; and side air bags. A standard automatic recirculation control shuts the air vent and switches to recirculating air when it senses impurities such as diesel fumes outside the vehicle. The base price for the 528i is \$37,900; the 540i automatic is \$49,900.

The new 740i, a shorter-wheelbase version of BMW's flagship luxury-performance 7-Series sedans, returned in June as a 1997 model after a one-year absence. Its long list of standard assets includes a 4.4-liter, 232-horsepower V-8.

Side air bags are standard on all three 7-Series models—the 740i and the longer-wheelbase 740iL and 750iL. The 750iL, with a 5.4-liter V-12 engine, gets BMW's new break-resistant security glass. Base prices: 740i, \$60,450; 740iL, \$64,400; 750iL, \$93,300.

Cadillac

The body structures for all front-wheel-drive Cadillacs get a major stiffening, resulting in quieter interiors and a more-solid, less-cushioned ride.

All DeVille sedans get updated interiors and exteriors, new instrument panels, dual climate controls, and side air bags in the front doors.

The big rear-wheel-drive Fleetwood has been dropped, but a new DeVille d'Elegance (\$37,995) will appeal to "traditional" buyers—those aged 60 and over—who want a big limousine. The six-passenger cabin's interior is loaded with luxuries. On the outside, the car features chrome wheels and gold ornaments. The d'Elegance also offers an optional dealer-installed trunk storage system with dividers that can be moved from side to side.

The big and luxurious DeVille Concours (\$41,995) becomes sportier with a more contemporary look, a center console, and redesigned front bucket seats.

The Seville updates its body structure, suspension, and brakes.

Infiniti

The emphasis is on luxury, comfort, and performance in the totally new and more

conservative 1997 Infiniti Q45, which has improved chassis rigidity.

The flagship four-door sedan features an aerodynamically slanted front and grille. Interior volume is increased, although the new Q's wheelbase is 2 inches shorter. The car's 4.1-liter V-8 engine is slightly smaller than before, with 266 horsepower compared with 278 on the old Q. With combustion efficiency increased and the car lightened, however, performance is equal to that of the previous model.

Other standard luxuries include 10-way power seats with lumbar support for driver and front passenger. An anti-theft system uses a magnetically coded key that is recognized by the car's ignition system before the engine is allowed to start. The price for the Q45 is \$47,900.

The Q45t Touring Model (\$49,900), with firmer ride and handling, adds a sport-tuned suspension and heating for the front seat.

Jaguar

A curvaceous new sport coupe or convertible, the XK8, arrived in October to replace



Lincoln Mark VIII



Mercedes-Benz E420



Acura 2.2CL



Cadillac Catera

the XJS, which was launched in 1975. The XK8 is a compact four-passenger with an interior that has luxurious wood veneers and premium leathers.

A new 4.0-liter V-8 engine, built in Wales by Jaguar's parent company, Ford, produces 290 horsepower. Prices are \$64,900 for the coupe, \$69,900 for the convertible.

Last year's introduction of an extended-wheelbase model of the Vanden Plas was so well-received that Jaguar has added 5 inches to the length of another vehicle, the XJ6 four-door sedan, now named the XJ6L. The XJ12 is no longer offered in North America.

Lexus

The SC 400 (\$52,400) and SC 300 (\$43,400) coupes get reshaped nose and tail contours, and the flagship LS 400 (\$52,900) becomes the first luxury car from Asia to have side air bags in the front.

Lincoln

Special lighting brightens the face-lifted Mark VIII, which has new high-intensity-discharge lights for low-beam use. A bluish light consumes less power but emits 2.7 times the light of the car's halogen high beams.

The industry's first neon taillight, a single 48-inch-wide neon tube, runs across the trunk. Side mirrors reflect red lights that blink in tandem with the turn signals to alert other drivers to a pending turn. "Puddle lamps" on the side mirrors light the ground next to the vehicle when the door is unlocked with remote keyless entry.

For 1997 models, Lincoln-Mercury is adopting a single price of \$37,280 for the Continental (1996 price: \$42,470), the Mark VIII (\$40,320 in 1996) and the Town Car (\$37,950 in 1996).

Mercedes-Benz

Mercedes says a 1997 price increase averaging \$420 per car is actually a decrease when it's adjusted for equipment additions and enhancements to the line of rear-wheel-drive cars.

All 1997 models feature a new five-speed, electronically controlled automatic transmission. Other additions for all models: a new anti-theft system that prevents the use of a copy key, and an integrated, HomeLink-compatible garage-door opener. Sensors that detect front-seat occupancy prevent air bags from deploying if a seat is unoccupied.

The V-8-powered E420, introduced in

SPECIAL REPORT

April as a 1997 model, is priced at \$49,900. The dramatically styled E-Class vehicle can accelerate from 0 to 60 in 6.7 seconds and is equipped with door-mounted side air bags.

The S500 (\$87,500) and S600 (\$130,300) four-door sedans now feature standard Xenon high-density gas-discharge headlamps and a Parktronic system that acts like sonar to detect obstacles when parking.

Rolls-Royce; Bentley
Rolls-Royce says its Limited Series

sound system, a laptop computer built into a picnic table, and a fax machine. For entertaining, you can have a refrigerator and crystal cocktail accessories installed.

Volvo

Changes in the mid-1997 model year are planned to spice up Volvo's image. In the spring a new two-door hardtop, the C70, will arrive. A four-seater with a five-cylinder, 240-horsepower engine, it will also be available as a convertible next fall.

**Chrysler LHS****Lexus ES300****Mazda Millenia****Mitsubishi Diamante****Oldsmobile Regency**

cars "are covering greater mileage, and often for business purposes with the owners being chauffeured to enable them to work in comfort while on the move."

The new Bentley Continental T builds on the Continental R coupe's success, increasing output to 400 horsepower and providing 0-to-60 acceleration in 5.8 seconds. New 18-inch wheels and a shorter wheelbase add to its sporty stance.

It has a turned-aluminum dashboard and console, grained mahogany trim, a push-button starter on the center console—and a price tag of \$324,500.

The Bentley Brooklands, the Rolls-Royce Silver Spur, and the flagship Rolls-Royce Park Ward benefit from turbocharging that increases power by 25 percent, in addition to a new security system and front-seat-belt pre-tensioners that ensure the belts are cinched down in a front impact.

Rolls-Royce and Bentley vehicles can be custom-fitted for television, a high-end

The 850 series of sedans and wagons will be made over when they debut in January as 1998 models, with more-rounded styling, new interiors, and new names: the S80 sedan and the V80 wagon.

A new engine package for the 850 GLT models (\$31,835) delivers 190 horsepower at very low rpm for good fuel economy in a 2.4-liter, in-line, five-cylinder engine. The 850 turbo sedan and wagon have been renamed the 850 T5.

The successful 850R, Volvo's highest-performance car—with a 240-horsepower, turbocharged engine—continues as a special edition sedan or wagon at \$40,135. A new all-wheel-drive wagon will appear in showrooms next summer.

All Volvo 850s emphasize safety. The front seat belts have automatic pre-tensioners. And standard front-seat-mounted side air bags are designed to be in the correct place for the occupant regardless of seat position.

\$25,000 to \$35,000**Acura**

The CL Series, the first U.S.-designed and manufactured model from a luxury-import company, went on sale March 15.

The two-door CL is a four-passenger sport-luxury coupe with a long list of standard features, including dual air bags, automatic climate control, remote keyless entry, and a security system. The first model introduced was powered by a 2.2-liter, in-line, four-cylinder engine generating 145 horsepower, but a performance-oriented 3.0CL with a 3.0-liter V-6 went on sale in October. The base price of the 3.0CL is \$25,565.

Buick

The Park Avenue touring sedan is slightly larger in its completely new 1997 form, which is based on a stretched version of the platform for the Oldsmobile Aurora and Buick Riviera luxury coupes.

Buick's full-size, five- or six-passenger flagship sedan is designed for agile ride and handling. Its smooth and responsive power comes from a top-rated 3800 Series II V-6 for the base car (\$29,995) and a 240-horsepower supercharged 3800 Series II V-6 for the Park Avenue Ultra (\$34,995).

Safety belts are mounted in the Park Avenue's front seats so that the shoulder belts fit comfortably regardless of the occupant's size, thus eliminating dangling belts and bulky floor mountings.

Standard on the Park Avenue Ultra are traction control, special wheels, rain-sensing windshield wipers, a tire-pressure monitoring system, and a windshield display of instrument-panel information.

The Ultra has an auxiliary power outlet for mobile telephones, laptop computers, or other equipment requiring electricity.

Cadillac

A new car that caters to younger, import-minded buyers, the Catera is designed to be fun to drive and is intended to compete with the BMW 328i, the Lexus ES300, the Infiniti I30, and the Mercedes C280. The midsize, rear-wheel-drive car is the refashioned twin of the conservatively styled Opel Omega luxury car, which is built in Germany by GM's Adam Opel AG subsidiary.

With four-wheel disc brakes and the Omega's 200-horsepower V-6 engine, the Catera has the tight ride and handling typical of European cars.

To Americanize it, Cadillac has added standard electronic four-speed automatic

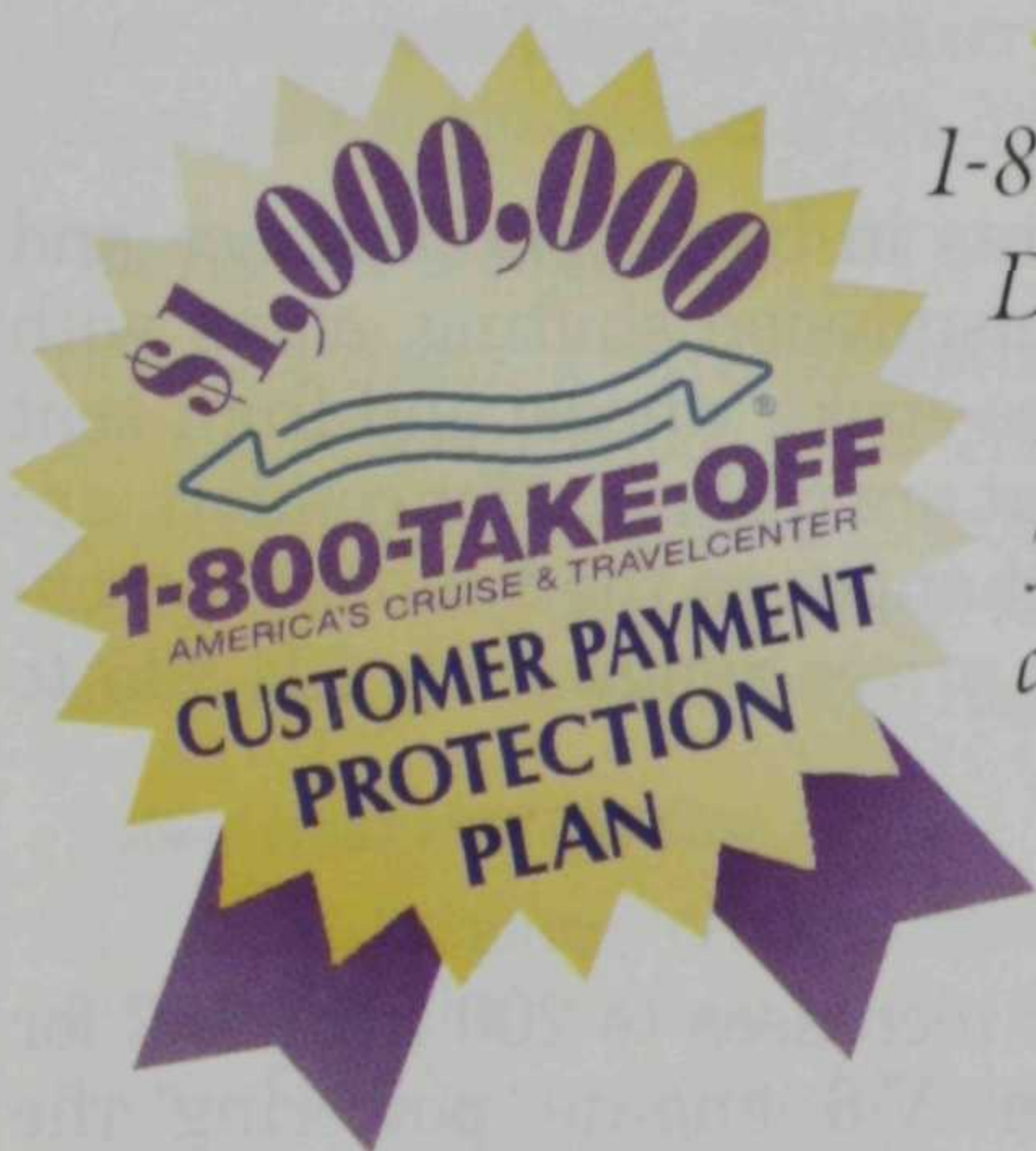
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SPECIAL REPORT

transmission, faster acceleration that clocks from 0 to 60 in 8.5 seconds, cup holders, more storage compartments, and generous use of wood inlays and leather. Its base price is \$29,995.

Chrysler

There are no changes for 1997 in Chrysler's near-luxury vehicle, the light, aerodynamic, and performance-oriented LHS, which features Chrysler's cab-forward engineering and is priced at \$30,255. A redesign is slated for the four-door sedan in the 1998 model year.

Lexus

The midsize ES300 sedan is all new, inside and out. The list of standard equipment includes wood trim on all four doors, front power-adjustable seats with driver's-seat power lumbar support, a one-touch power moonroof, and rear cup holders. A "rolling code" radio transmitter for the remote keyless entry system prevents unauthorized activation because each time the remote is used, a new code is randomly generated.

The ES300 is a four-door with a coupe-style roof line and a sporty front end. It is 2.4 inches longer than its predecessor and has more rear leg room and front head room. The center console space is more than tripled, with an upper compartment pre-wired for a hands-free phone and a lower compartment with a 12-volt power outlet. Yet the car is 78 pounds lighter, and its body structure is 30 percent stiffer.

The new Lexus provides 200 horsepower from a 3.0-liter, all-aluminum V-6. The base price is \$29,900, \$2,500 less than the 1996 model.

Mazda

The powerful, midsize Millenia four-door sedan gets new headlight reflectors for improved performance and reduced repair cost, plus drivetrain changes to improve low-speed response on the base and L models. Eight-way power passenger seats are added on the L and S models. The base price for the S model is \$36,595.

Mercedes-Benz

A new C230 (\$30,450) with a larger 2.3-liter engine and increased torque output and fuel efficiency replaces last year's C220.

A face lift is due for C-Class sedans next year.

Mitsubishi

A redesigned Diamante flagship comes from Australia with a new 3.5-liter, 210-horsepower V-6 and a four-speed, electronically controlled automatic transmission with adaptive transmission control.

The midsize Diamante sports a contemporary, European look. The cabin-forward design of the Diamante incorporates nearly 4 more inches in overall length than its predecessor and 7.4 more cubic feet of interior space. Yet it is lighter and more fuel-efficient.

Standard equipment on the base ES model (\$29,990) includes seven-way adjustable bucket seats, automatic air conditioning that brings the cabin temperature to a set value, and pre-tensioners for the front seat belts.

Among standard features for the upgraded LS sedan are fog lamps, leather seats, wood-grain accents, a power driver's seat, and a keyless entry system.



Pontiac Bonneville SSEi



Saab 900 SE



Toyota Avalon



Volvo 850 GLT

Nissan

Extensive exterior changes for the Maxima GLE four-door sedan (\$26,899) include a new grille, bumpers, trunk lid, headlights, and taillights. An integrated HomeLink transmitter for opening garage doors becomes standard, along with new alloy wheels.

Oldsmobile

A new Regency with whitewall tires replaces the big rear-wheel-drive 98. The emphasis is on luxury and comfort for six passengers in the four-door sedan. Many exterior parts from the 98 now are on the full-size 88 chassis that is the base for the Regency.

The Regency (\$27,995) has the highly rated Series II 3800 V-6 engine with 205 horsepower, along with what Oldsmobile describes as "every conceivable convenience as standard equipment." These features include leather upholstery for the reclining split-bench front seat. Only two options are offered on the Regency: a

sunroof and a heater for the engine block.

The full-size but sporty LSS five-passenger sedan (\$27,695) adds a new center console with shifter, an improved gear ratio for faster takeoffs, and interior upgrades such as an overhead storage bin.

Pontiac

Bonnevilles get GM's new magnetic steering-assist system. When equipped with a new electronically controlled automatic transmission, the cars will move from a standing start faster than previous models.

The transmission will be standard on special-package Bonnevilles with a 240-

horsepower, supercharged V-6 engine. They are the SLE (the sport luxury edition of the Bonneville SE) and the SSEi (the special edition of the sporty SSE). The base price for the SLE is \$25,995; for the SSE, it's \$27,164.

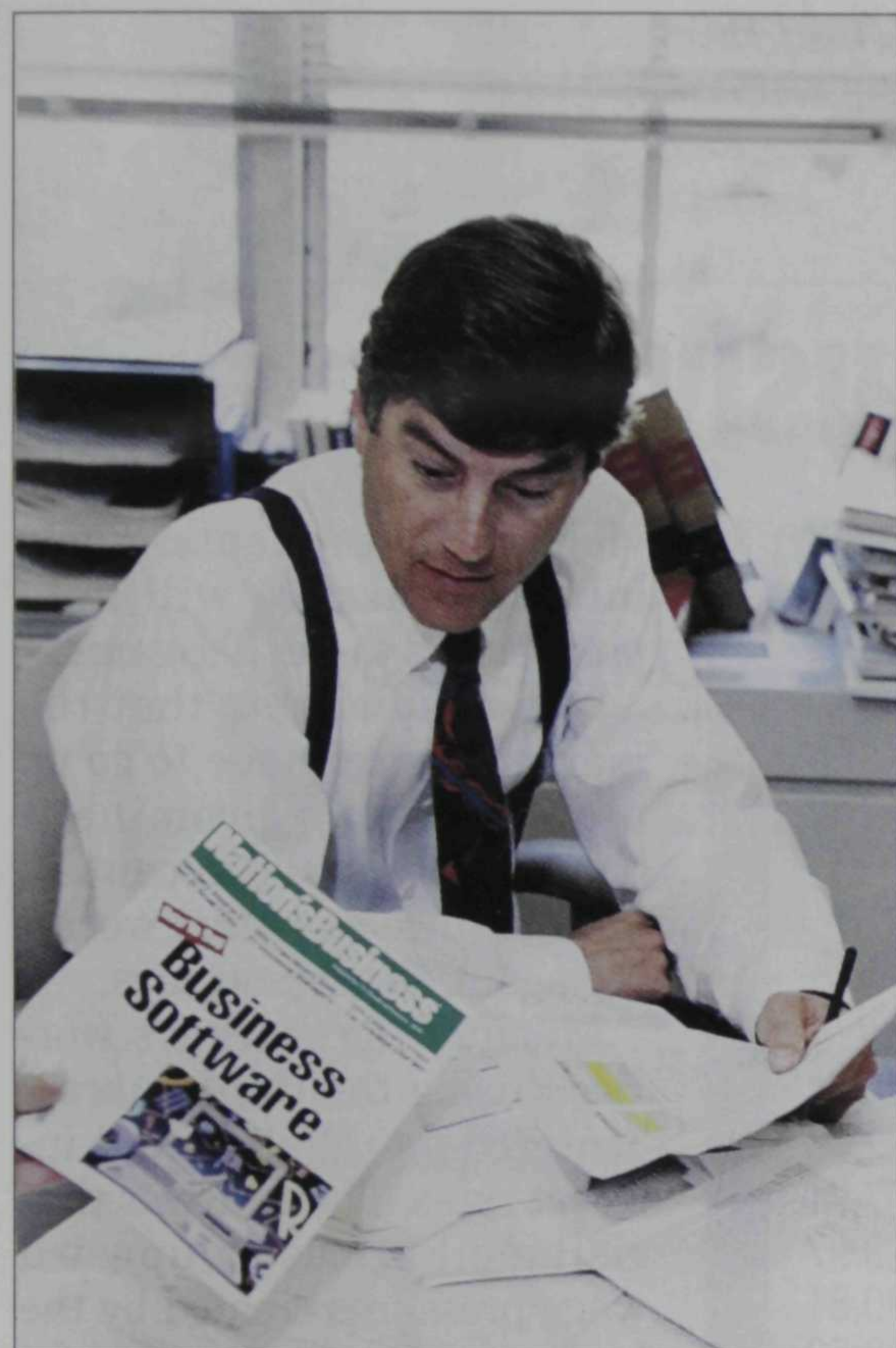
Saab

Improvements in brake performance and manual transmission shifting, along with revised three-spoke wheels and front-seat cushions that are reshaped for comfort, are among the changes on the Saab 900 hatchbacks (base prices range from \$24,995 to \$32,495).

Toyota

Horsepower increases to 200 from 192 for the 3.0-liter V-6 engine powering the Avalon, the full-size flagship sedan. The power mast for audio systems is replaced by an antenna embedded in the standard solar-energy-absorbing rear glass. Heated outside mirrors become standard on the upscale XLS model (\$27,048). **NB**

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Small Business Financial Adviser

Prospects for investors in the months ahead; the bottom line on taxable perks; tips on boosting your firm's value.

Financial Markets Move Cautiously

By Randy Myers

Like motorists traveling nervously through a busy intersection, investors are continuing to bid up stock and bond prices—cautiously. They remain wary of being broadsided, either by a slowing economy, which would hurt corporate profits, or an overheated economy, which would trigger inflation. Either scenario would be bad news for stocks and bonds.

That both concerns seem to carry equal weight on Wall Street is indicative of just how cautious—and jumpy—investors have become. Indeed, they temporarily panicked in early July, sending the Dow Jones industrial average plunging from above 5,700 to below 5,200 over two weeks.

Since then, the market has resolutely reclaimed that lost ground, finally pushing the Dow to a new high above 5,900 on the first day of October. That impressive rebound allowed the average domestic stock mutual fund to post a total return of 2.61 percent for the third quarter, according to Lipper Analytical Services Inc., in Summit, N.J. The third-quarter results put the average domestic fund up 13.73 percent for the first nine months of the year.

Gary Anderson, a market analyst with Anderson & Loe Inc., a research firm in Eugene, Ore., says the market's July tumble had all the markings of a classic bear trap. Bearish investors who sold then must now buy back into the market at even higher prices or risk being stranded in other, lower-

Performance Of Mutual Funds, By Category

With Dividends Reinvested Through Sept. 30

Type Of Fund	3rd Quarter	Year To Date	Five Years
(Figures Are Percentages)			
Capital-appreciation funds	1.96	13.40	99.46
Growth funds	2.90	13.42	92.25
Midsize-company funds	3.25	14.77	107.71
Small-company growth funds	1.76	17.20	119.97
Growth and income funds	2.90	12.44	90.81
S&P 500 Index objective funds	2.97	13.09	98.52
Equity income funds	2.66	10.54	86.79
General Stock Funds Average	2.61	13.73	96.71
Health/biotechnology funds	3.39	11.70	90.65
Natural-resources funds	3.95	21.39	73.65
Environmental funds	0.35	14.12	27.16
Science and technology funds	5.62	13.91	190.75
Specialty/miscellaneous funds	1.04	11.44	109.60
Utility funds	-1.89	1.60	59.86
Financial-services funds	7.64	14.69	180.37
Real-estate funds	5.75	12.89	74.85
Gold-oriented funds	-2.01	13.34	65.79
Global funds	0.86	11.55	71.93
Global small-company funds	-1.22	13.55	70.52
International funds	-0.56	7.38	58.63
International small-company funds	-1.65	10.91	32.66
European-region funds	1.60	14.20	71.47
Pacific funds, excluding Japan	-2.05	5.84	99.06
Pacific-region funds	-2.42	4.55	57.41
Emerging-markets funds	-2.76	11.21	67.86
Japanese funds	-6.37	-1.61	1.34
Latin American funds	1.29	24.60	38.76
Canadian funds	6.97	15.56	48.81
World Stock Funds Average	-0.73	9.60	83.02
All Stock Funds Average	1.71	12.36	91.62
Flexible portfolio funds	2.29	7.96	71.56
Global flexible portfolio funds	2.06	8.24	63.44
Balanced funds	2.72	7.94	68.18
Balanced-target maturity funds	2.23	2.96	54.18
Convertible-securities funds	3.04	10.25	82.69
Income funds	1.96	6.04	64.60
World income (bond) funds	4.35	7.47	36.64
Fixed income (bond) funds	2.08	1.83	43.47
Average Of Taxable Stock And Bond Funds	1.99	8.84	73.79

SOURCE: LIPPER ANALYTICAL SERVICES INC.

yielding investments. Their buying pressure will help push stocks to further gains.

"My suspicion is that the market will continue to go up until the more prominent bears have finally recanted, and then we can start worrying again," Anderson says.

Much of the market's worries during the third quarter centered on inflation and interest rates. The fear was that rising oil prices or upward wage pressures created by the low unemployment rate might ignite inflation, which would prompt the Federal Reserve Board to raise interest rates. (High interest rates dampen the economy, which weakens inflation.)

In mid-September, though, the Fed decided to leave interest rates untouched for at least two months, sparking a rally in the bond market that helped to encourage stock investors, too. The average taxable domestic bond fund posted a total return of 2.08 percent in the third quarter, putting it up 1.83 percent for the first nine months of 1996.

John Zaehring, vice president and chief economist for Loomis Sayles & Co., a Boston-based investment counseling firm with \$45 billion under management, says modest economic growth and inflation should keep the stock and bond markets healthy, but not ebullient, for the foreseeable future.

He predicts that the nation's gross domestic product will show a real gain (adjusted for inflation) of about 2.3 percent in 1996 and a like amount in 1997, and that inflation itself, as measured by the Consumer Price Index,



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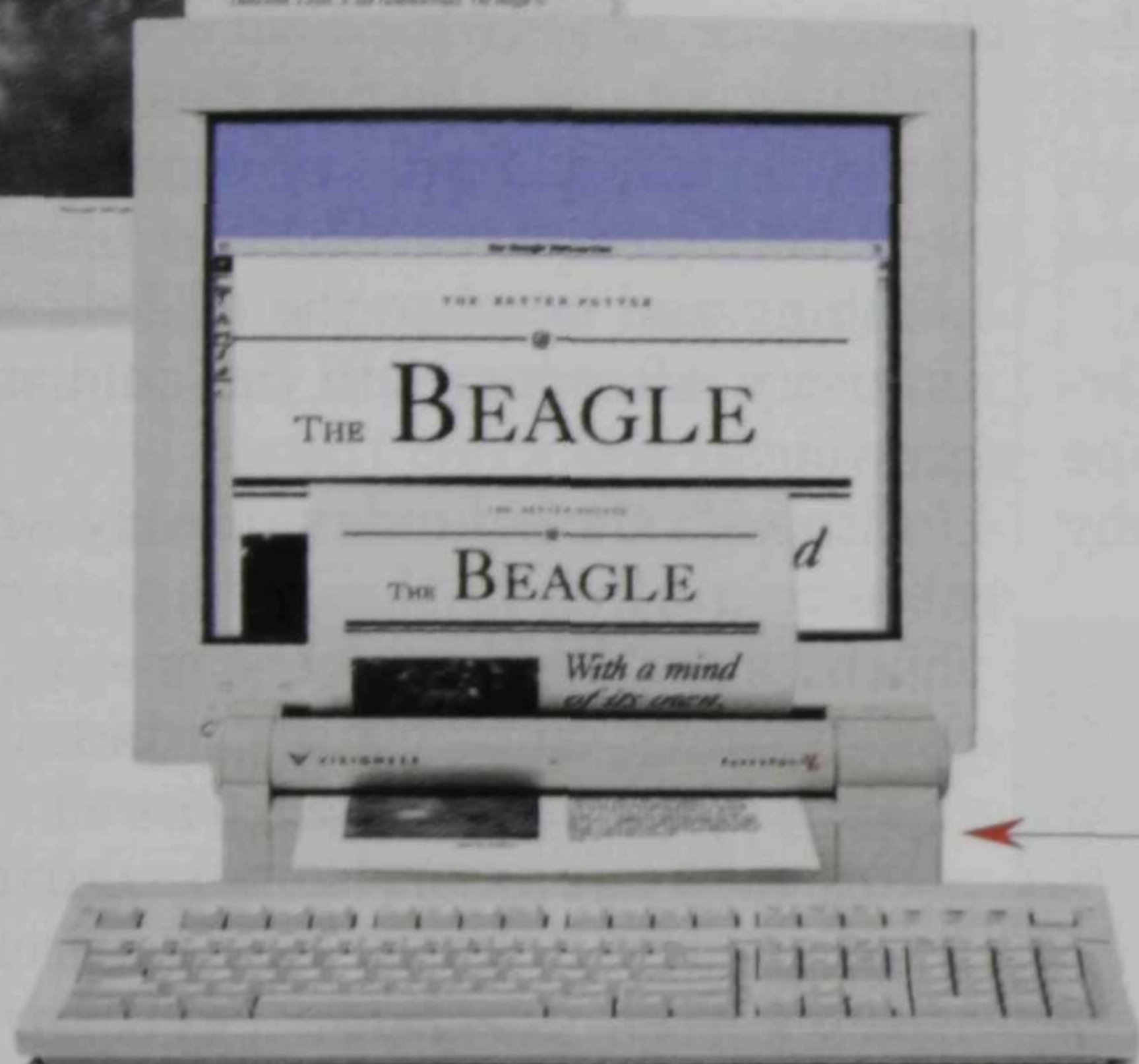
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NEW YORK. Researchers will release a study today that shows there is some glimmer of hope for America's 2.4 billion pack rats—those among us who insist on hoarding onto scraps of paper, old magazine articles, and news clippings. In recent scientific tests, laboratory personnel determined that pack-rat behavior was, in fact, completely normal and an inherent part of human nature. The tests also discovered that a majority of pack rats were convinced they could kick the clutter-collection habit, if given the right tools. Researchers are now in a quest to determine what those tools might be. A team of more than 300 scientists believe they have found that tool in a product invented by Palo Alto-based Visioneer.

Steve Hirschman

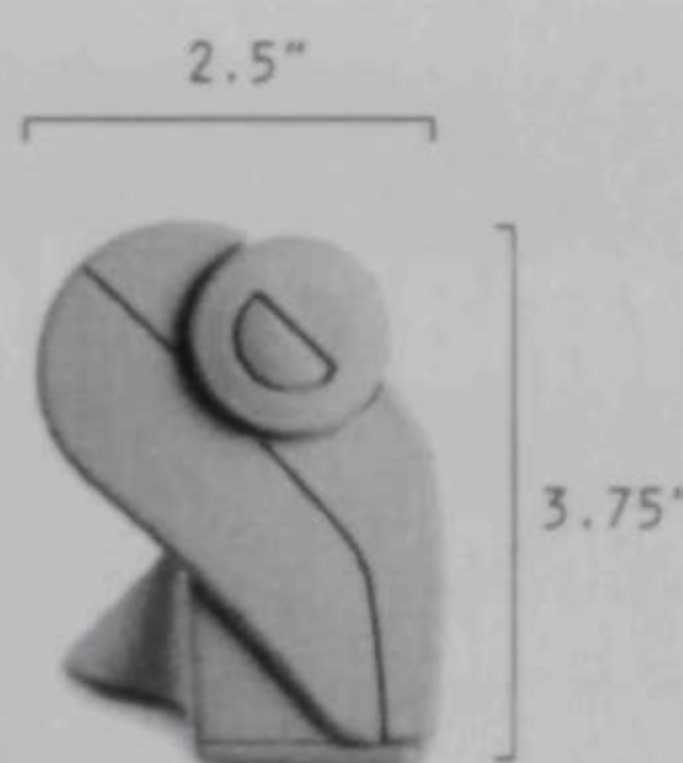
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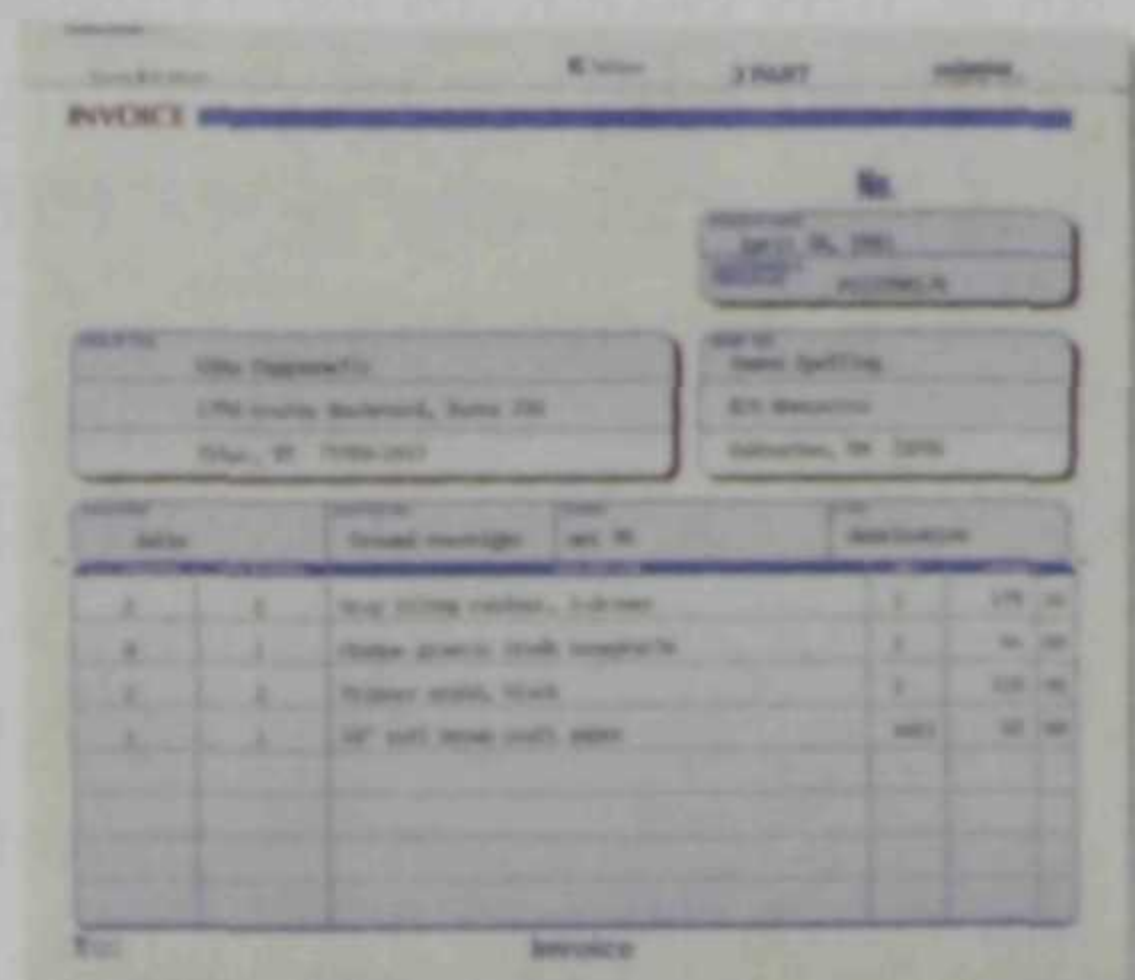
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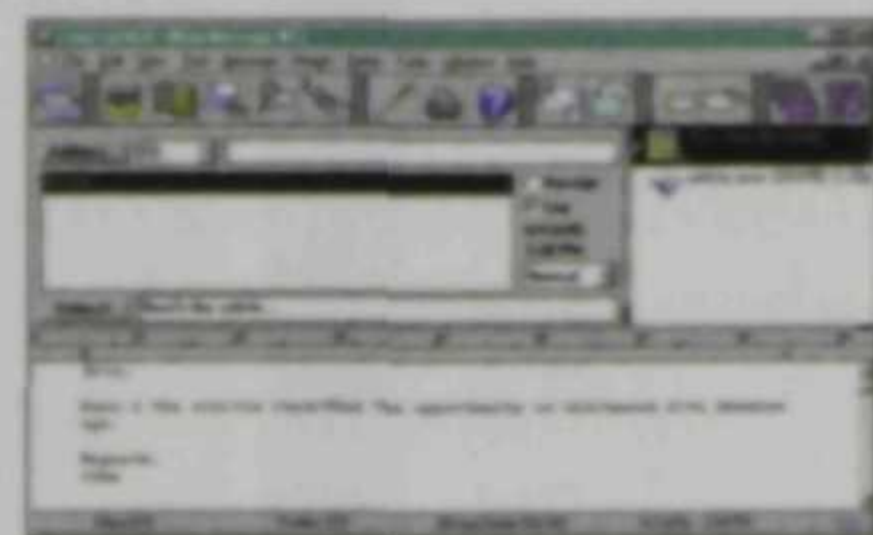
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SMALL BUSINESS FINANCIAL ADVISER

will be about 3 percent for 1996 and 3.2 percent in 1997.

But an economy that grows too slowly would put pressure on corporate earnings, awakening investors' other fear: recession.

Zacks Investment Research, in Chicago, says analysts are already predicting that earnings for the companies in the Standard & Poor's 500-stock index will be up only 8.6 percent for this year vs. a gain of 16 percent in 1995. The analysts are, however, expecting earnings for those companies to rebound in 1997 with a gain of 13.3 percent.

"The market is going to be unforgiving with regard to earnings, so we have redoubled our efforts in that area," observes Stephen Canter, chief investment officer

for Dreyfus Corp., a large mutual-fund company. "We want to be absolutely sure there are no disappointments [reported by companies in Dreyfus' stock portfolios] and pay extra attention to our valuation disciplines."

Neither Canter nor Zaehring sees the stock or bond markets moving dramatically higher or lower as long as the current economic environment remains stable. Still, they say the market could suffer more day-to-day volatility as investors try to divine the economy's prospects through each new piece of economic data released by the government.

The Fed's decision to stand pat on interest rates, Zaehring says, was "a recipe for continued volatility, since the economy

can drift one way or another relatively quickly."

Stock funds that performed especially well in the third quarter included those that focused on Canada, financial-services companies, technology issues, and natural resources.

Canada's stock market is dominated by natural-resources companies, and Derek Webb, manager of the GT Global Natural Resources fund (which earned investors 38.6 percent over the first nine months of this year), says funds in that sector did well both because oil prices have been climbing and because the oil-field service industry, after years in the doldrums, is growing again.

Although those funds probably won't be able to maintain their stunning pace much longer, Webb says the ones that buy fast-growing companies regardless of commodities prices should still do well.

In performing handsomely during the third quarter, financial stocks merely continued a trend that's been in place throughout most of this decade, reflecting both the long decline in interest rates (since the early 1980s) and the abundant mergers and acquisitions activity in the banking industry. Analysts look for consolidation in that industry to continue.

Technology stocks weren't uniformly higher. Established companies such as computer chip maker Intel Corp., which issued an optimistic business forecast for the third quarter, did well, while many second- and third-tier companies merely treaded water.

With stock prices at record highs and interest rates within shouting distance of their historic lows, analysts and money managers alike see few genuine bargains in either the stock or the bond markets.

That, they say, suggests that investors should use the fourth quarter to focus on stocks of companies with reasonable valuations (such as a low stock price relative to earnings) and an ability to continue growing even if the economy does turn sluggish.

Anderson, for one, is still optimistic about technology issues, albeit selectively. "We've been recommending that our clients move toward this sector, specifically some of the franchise names in software," Anderson says. "That has worked out well, and our suggestion is that they stay there."

In the fixed-income market, Zaehring says, corporate bonds were a bit pricey heading into the fourth quarter, making U.S. Treasury bonds slightly more appealing.

Stock Performance In The Third Quarter

Industry Group **Change In Value**
July 1 To Sept. 30
(Figures Are Percentages)

Shoes, leather	13.0
Cosmetics—personal	11.4
Banking	10.8
Savings and loans	9.6
Electronics	8.2
Retail—food stores	7.4
Real-estate investing	7.0
Aerospace	6.9
Paper, packaging	6.9
Business data processing	6.7
Chemicals	6.5
Food—packaged goods	6.4
Food production	5.9
Real estate	5.8
Drug manufacturers	5.7
Railroads	5.6
Business equipment	5.4
Textile manufacturing	5.0
Credit	4.7
Dow Jones Industrial Average	4.0
Building	3.8
Insurance	3.8
Nasdaq Index	3.5
Electrical equipment	3.5
Utilities—gas, other	3.1
Distillers—brewers	2.9
S&P 500 Index	2.5
Oil, natural-gas services	2.3
NYSE Index	2.3
Media General Stock Index	2.2
S&P Industrial Index	2.1
Retail—discount, drugs	1.9
Personal services	1.9
Investments	1.8

Industry Group **Change In Value**
July 1 To Sept. 30
(Figures Are Percentages)

Oil, refining, marketing	1.5
Health	1.4
Machinery—heavy	1.4
Business services	1.2
Housewares, furnishings	1.0
Multi-industry	1.0
Metals fabrication	0.7
Retail—miscellaneous	0.7
Oil, natural-gas production	0.6
Metals—nonferrous, coal	0.6
Publishing	0.1
Retail—department stores	-0.1
Recreation—luxury	-0.3
Precision instruments	-0.4
Rubber, plastic	-0.7
AMEX Index	-0.9
Metals—iron, steel	-1.2
Food—confections	-1.9
Freight, shipping	-2.4
Textiles—apparel	-2.7
Metals-Rare	-2.9
Retail—apparel	-3.0
Building—heavy	-3.4
Hotels, motels, restaurants	-3.6
Recreation—broadcasting	-5.0
Automotive	-5.0
Utilities—electric	-5.0
Food—meats, dairy	-5.2
Recreation—movies, sports	-5.4
Communications	-5.4
Machinery—light equipment	-5.5
Tobacco	-12.6
Airlines	-15.5

SOURCE: MEDIA GENERAL FINANCIAL SERVICES

Randy Myers is a financial writer in Dover, Pa.

SMALL BUSINESS FINANCIAL ADVISER

FRINGE BENEFITS

The Bottom Line On Taxable Perks

Although employees love company-paid perks, the best things in life are not always tax-free. This is certainly true for three popular fringe benefits: life insurance, company cars, and reimbursed moving expenses for new or transferred employees.

The imputed income of these fringe benefits must be added to the employee's W-2 income, and the employee must pay federal, state, and FICA taxes on the value. In case you haven't checked your pay stub lately, federal, state, and FICA withholding can easily amount to 40 percent or more of your gross wages.

To avoid unpleasant misunderstandings with the very employees you are trying to reward, make sure you and they understand the rules of imputed income.

Perhaps the most common fringe benefit that must be added to income is the cost of company-paid group term life insurance for coverage above \$50,000.

For example, if you provide insurance at two times salary, a 55-year-old controller

making \$75,000 will owe tax on the premiums for \$100,000 of coverage (two times \$75,000 less the \$50,000 limit equals \$100,000).

To assist companies in calculating tax withholding on life-insurance premiums, the Internal Revenue Service publishes a table of the calculations of the cost of life-insurance protection based on age. The cost of \$1,000 of life insurance for someone under 30 is 96 cents per year. The cost per \$1,000 of coverage for a person age 55 is \$9 per year.

Calculating the taxable income from a company car requires more record keeping. Only the personal use of a company car is taxable, and employees must keep detailed logs on how many business vs. personal miles they drive during the year. The ratio of personal miles to total miles is then multiplied by the annual lease value of the car from a table provided by the IRS.

Assume that the controller drives a car



with a fair market value of \$21,000 and that it has an annual lease value in the IRS table of \$5,850. His personal miles were 80 percent of the total miles driven. Eighty percent of \$5,850 results in \$4,680 of imputed income, which must be added to his W-2.

Last—and most confusing—are company-paid moving expenses. The only company-paid moving expenses that do not have to be added to the employee's W-2 are the

cost of one-way travel to move family and goods from the old home to the new home—providing certain time and distance tests are met—and the cost of one month of temporary storage.

All other company-paid or reimbursed expenses must be added to the employee's income.

—Gloria Gibbs Marullo

The author is a CPA and financial writer in South Bend, Ind.

TAXES

There's Nothing Passive About Rental Income

A simple way to reduce your taxes is to reduce your salary. While this may sound highly unappealing, you may be able to do it without taking a hit in your wallet. All you need is "passive" rental income and deductions to match.

Before exploring this tax-saving strategy, however, it's worthwhile to consider the differences between active and passive income. Active income consists of

earned income (W-2 and self-employment) as well as portfolio income (interest and dividends). Passive income is derived from rental equipment or real estate in which you are not engaged on a regular, continuous, and substantial basis.

The typical way to reduce taxes owed on active income is to claim allowable deductions. But deductions from passive rental activities (interest, depreciation, taxes, insurance, and maintenance) must be kept separate. If these deductions exceed your rental income, you have a passive-activity loss.

A loss on passive activities cannot be used to cut your taxable income on salary and investments, but there is a way to put those deductions to work to cut your tax bill. Here's an example.

Assume you earn \$250,000 in salary and lease personally owned business property at fairly low rental rates. This lease generates a net loss of \$50,000.

Tax regulations prevent you from using that loss to reduce your earned income and cut your tax bill. You pay income taxes on the full \$250,000.

Now let's reduce your salary by \$50,000 and increase the business rental income by the same amount, assuming that the higher rental fee is within fair-market range. You will pay income taxes on \$200,000 of salary.

Meanwhile, you will have \$50,000 in

new passive income. But you won't owe any taxes on this amount because it is offset by your passive loss. The deductions offset the passive income dollar for dollar.

Hence, you still have \$250,000 in total income, but your federal income tax is now calculated on \$200,000, saving nearly \$20,000 for a married couple filing jointly.

This strategy works best when you rent equipment or real estate to a business in which you have no ownership involvement. It is possible, however, to rent to your own company as long as you do not "materially participate" in its operation.

Generally, IRS regulations consider rental income derived from a business in which you are a "material" participant as ordinary "active" income, not passive income. Consequently, the rental income is treated as ordinary rather than passive, ruling out the passive-income tax strategy outlined above.

When it comes to rental income, however, there is nothing passive about the tax and financial benefits that can be derived from skillful handling of allowable deductions.

—Joel Goldhirsh

The author is a registered securities and financial-planning representative of CIGNA Financial Advisors, Inc., and Goldhirsh & Goldhirsh, with offices in Irvine, Calif.



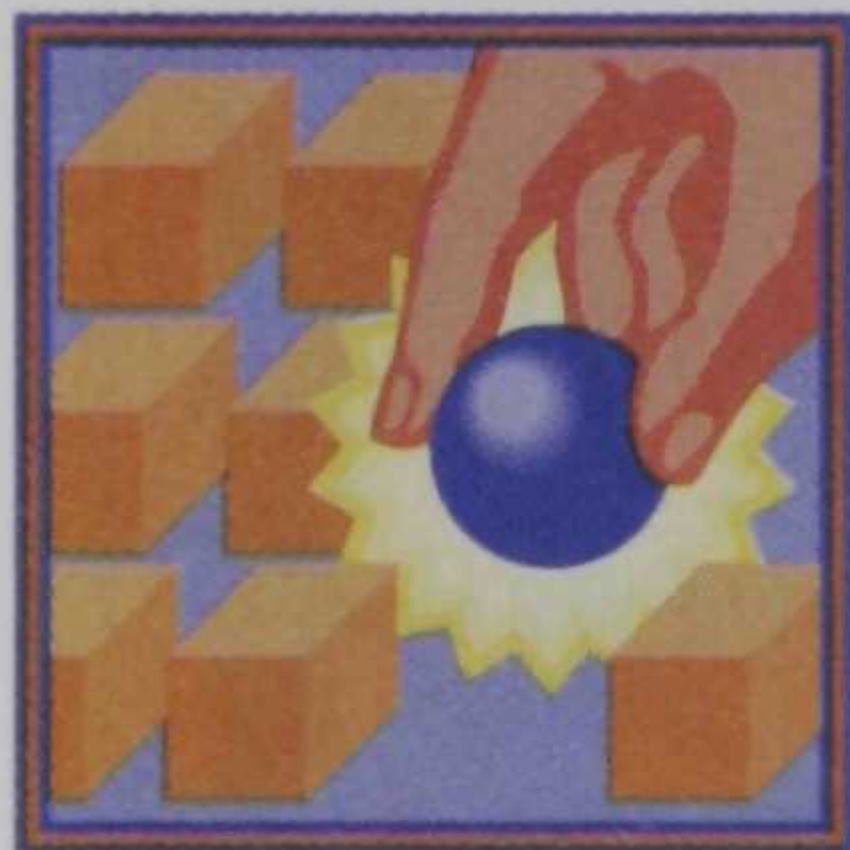
NET WORTH

10 Ways To Increase Your Firm's Value

When you want to borrow money for your business, transfer your company to heirs, or sell your firm outright, you need to know its value. Many owners think that value is simply a multiple of earnings, but it's far more than that.

Perhaps the best way to understand value is to look at your business from the perspective of a potential buyer, according to Howard Hecht and William Downey, principals with Green Park Development Resources Inc., a mergers and acquisitions company in Port Washington, N.Y.

By thinking like a buyer, they say, you can see more clearly the key characteristics that influence a business's value. Here are 10 characteristics that they say are the most important:



1. Develop Proprietary Products

Technology, design, and even packaging can make your products proprietary, can lead to higher profits, and may increase your desirability from

the buyer's standpoint. Proprietary products offer protection from competition and enable companies to sell on much more than just price. It's important to make sure that your customers perceive a differentiation.

2. Serve Niche Markets

Trying to be everything to everyone in a major market can blur a company's image and expose it to harsh competition. Instead, position the company as a market leader.



In good markets, you're often better off owning 60 percent of a niche than 1 percent of the broader market. "Niche players have a sharp focus on specific types of customers, know them in minute detail, and can therefore offer them superior expertise, service, and products," Hecht and Downey wrote in a recent article.



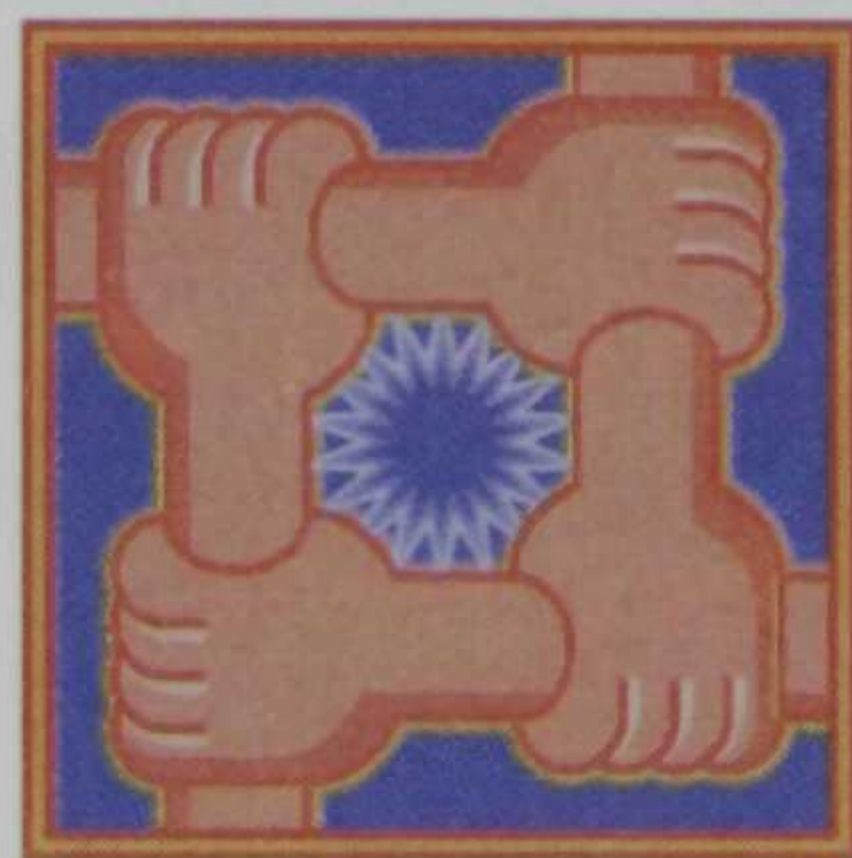
3. Sell Consumable Products

With consumable products, your first sale marks the beginning of a stream

of sales. Reorders are automatic, and you don't have a high customer turnover each year. Buyers of businesses look for companies that attract repeat customers because such firms have predictable sales.

4. Build An Organization

A business that depends on only one or two people is riskier in the buyer's mind, and therefore is of less value. "Buyers don't like one-man bands," said Downey and Hecht. Building a deeper management team means you must relinquish



some control; it's also more expensive and involves risk. The payoff, however, is not only better operating results, but a higher sales price, they wrote.

5. Beware Of The Size Issue

Larger businesses are often stronger than smaller ones. They may offer better market share, broader product lines, multiple locations, more assets, deeper management, and greater capabilities.

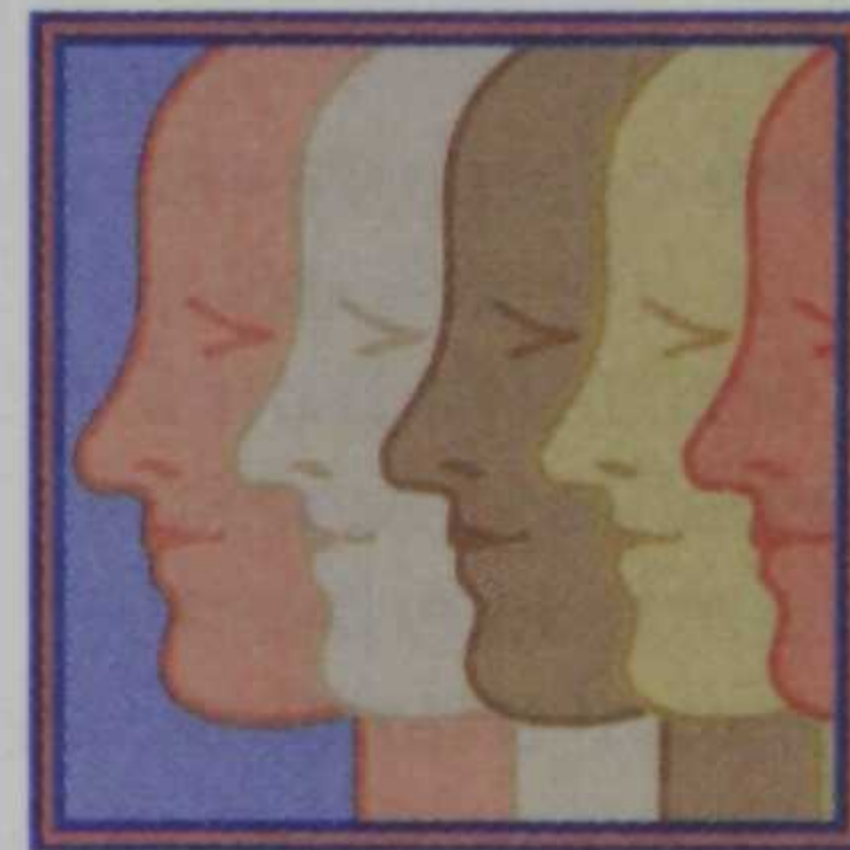
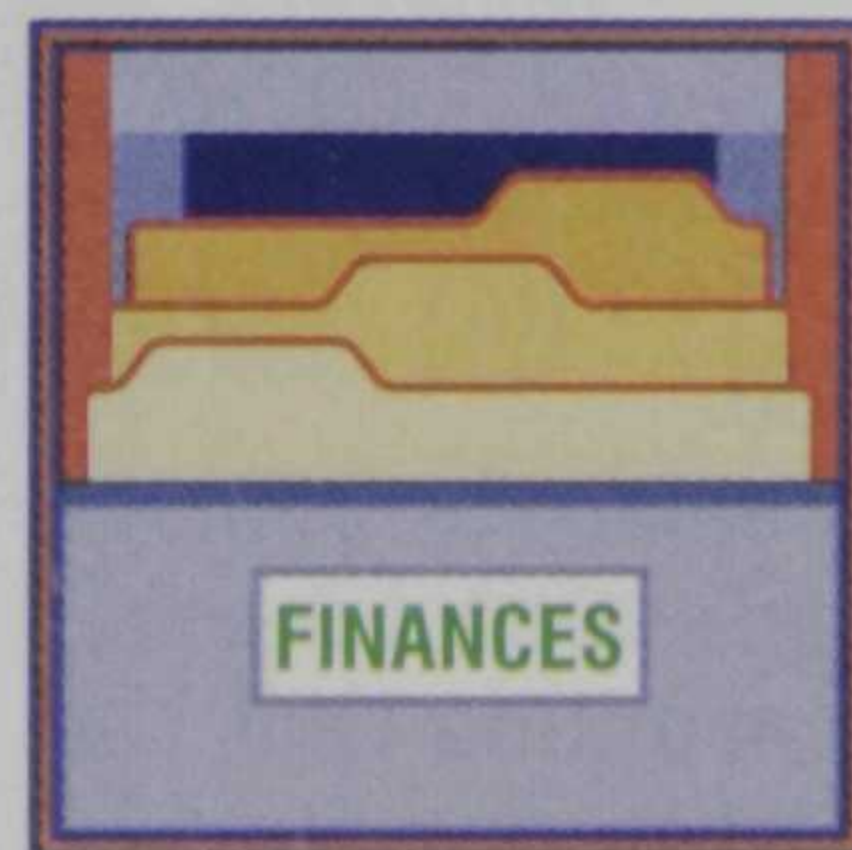


Recognizing this, buyers often set minimum sales sizes for acquisitions and, everything else being equal, tend to pay higher multiples for companies with higher sales.

The experts warn, however, that size can hurt. When the goal is market share, or simply size, profits are often sacrificed. The resulting high working-capital needs can lead to strained finances. More debt means higher risk. Larger businesses are often more complex and harder to manage.

6. Maintain Credible Financial Statements

Financial statements provide a record of the results of a company's operations and a statement of assets and liabilities. Many buyers are turned off by foggy financials. A buyer loses faith in a company's credibility if he can't understand and have a high degree of confidence in its reports.



7. Develop A Broad Customer Base

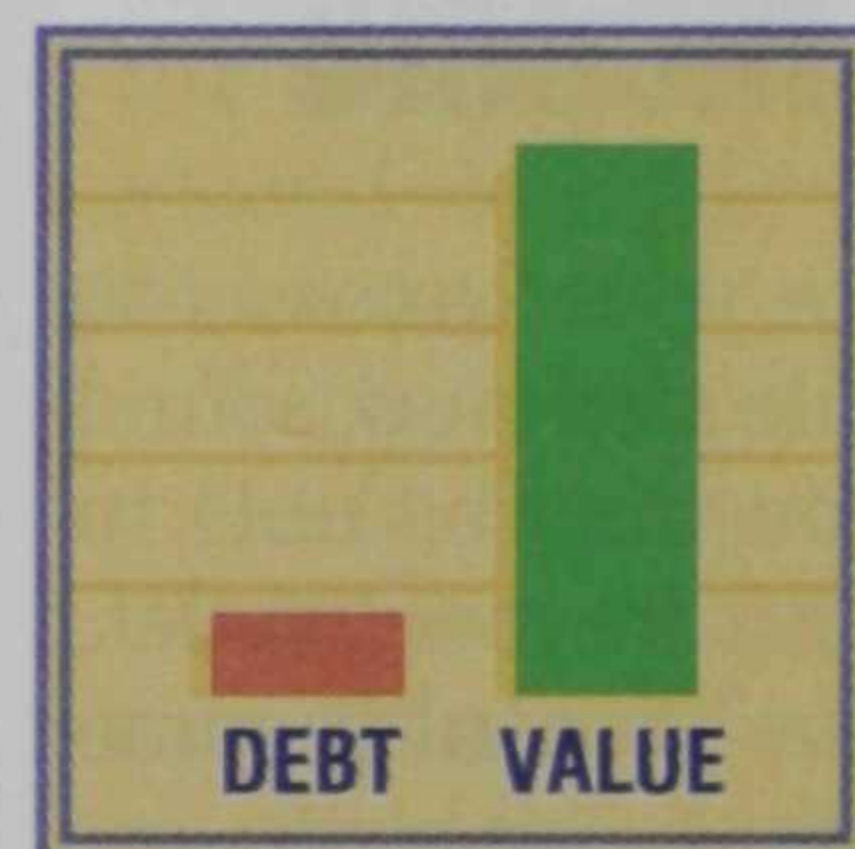
Degree of risk is a major factor in a buyer's purchase price. A business with a multitude of independent customers is generally more predictable and represents a lower risk than a similar business that depends heavily on one or a handful of major customers.

8. Steadily Increase Sales And Profits

When purchasing a company, the buyer makes a judgment as to what he can earn on his investment. Projecting results for a company with historical sawtooth peaks and valleys in sales and profits is very difficult; accordingly, buyers will devalue such a company's results.

9. Lower Debt + Higher Book Value = Higher Price

Debt outstanding at the closing is often deducted from the gross purchase price to determine the amount the sellers actually receive. Many businesses are nearly impossible to sell for any net price that is



reasonable to the owner because the debt exceeds the gross value of the business, according to the experts.

A business may be in such a situation because of distributions to the

owner, the business consuming too much working capital, high fixed assets relative to earnings, an acquisition, a recent expansion, or simply being undercapitalized. Higher book values (stockholders' equity) act as a positive in a buyer's assessment of purchase price, to some extent providing at least the illusion of a floor in value.



10. Be A Player In A Major Market

A company with a proprietary product in a small market is unlikely to be in high demand among those who would

pay higher prices for synergy. Said Hecht and Downey: "To get a big price, you need to interest purchasers who have big money."

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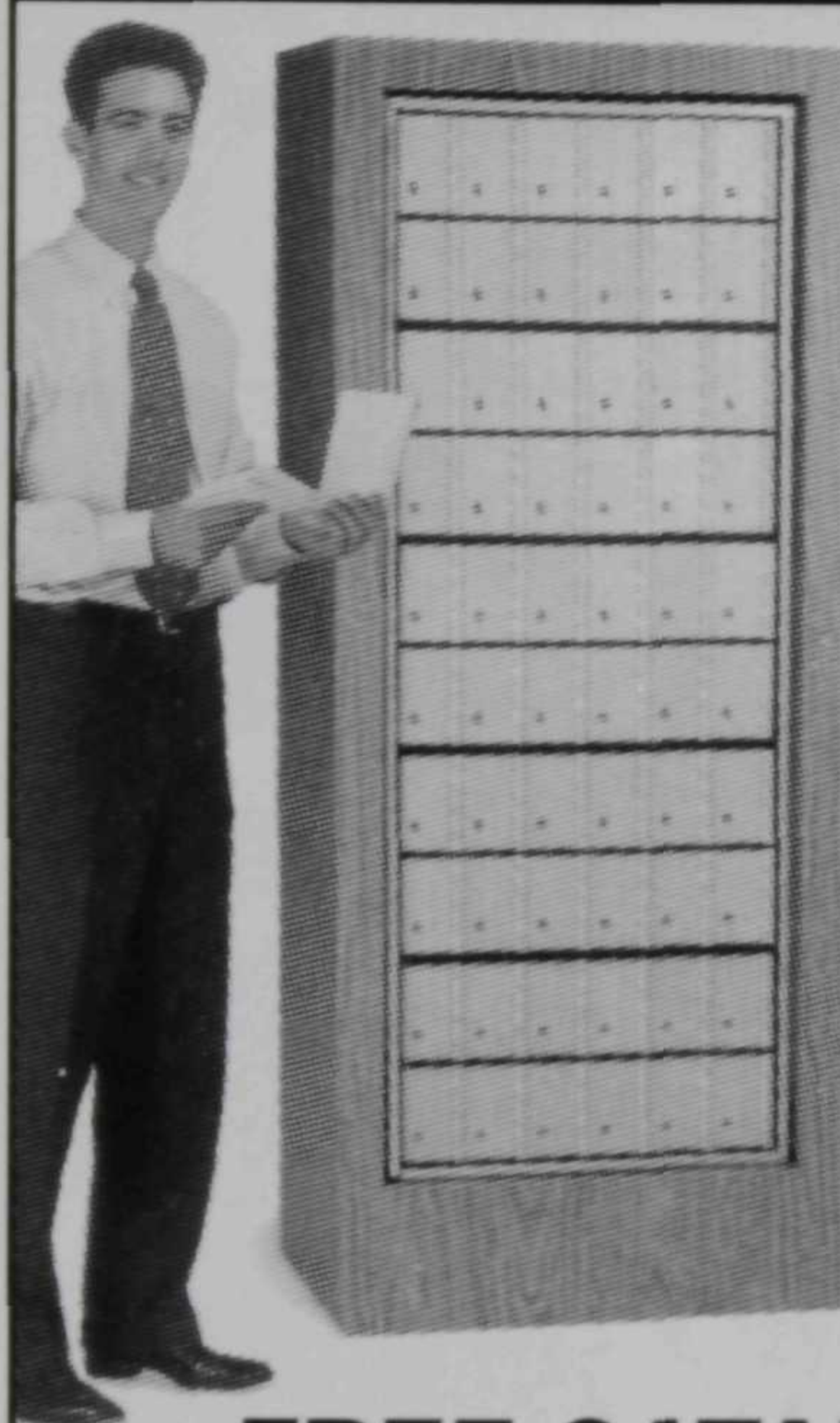
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Experts answer our readers' questions about starting and running their businesses.

By Cara Hersh

FINANCING

Youthful Enterprise

I am a young entrepreneur with a great idea for a very small business, but I lack start-up funds. My age and short credit history have hindered my efforts to get a loan. What loan programs, grants, agencies, and the like are available to help young entrepreneurs? *M.S.H., South Pines, N.C.*

Perhaps the best place to start searching for funds would be a Small Business Development Center. SBDCs, funded jointly by the federal government and individual states, are usually associated with state universities. An SBDC can help you—at no charge—determine if your business project is feasible, develop a business plan, and complete your application for funding.

The SBDC for North Carolina, headquartered in Raleigh, is associated with the University of North Carolina. The number for in-state phone calls is 1-800-285-UNC (1-800-285-0862); for calls from outside the state, it's (919) 715-7272.

If you are under 22, you can try the Young Americans Bank, in Denver. It is a state-chartered commercial bank covered by the Federal Deposit Insurance Corp. Its services—for customers no older than 21—include savings and checking accounts, certificates of deposit, loans, and credit cards. Call (303) 321-BANK (321-2265).

The Farm Service Agency (FSA) makes loans of up to \$5,000 to rural youths ages 10 to 20 to establish and operate income-producing projects, including repair shops,



ILLUSTRATIONS: MARTHA VAUGHAN

catering services, and businesses involving livestock and crop production as well as arts and crafts. Application forms for youth projects are available from the more than 1,900 FSA offices across the country. For the location of the nearest office, check the blue pages of your telephone directory under U.S. Department of Agriculture—Farm Service Agency.

If your age disqualifies you from these programs and you can't get a business loan

because of your short credit history, you can explore other options.

The so-called microloan programs created by the Small Business Administration (SBA) offer loans of \$100 to \$25,000 through responsible private, non-profit groups. Microloan programs are generally more flexible than traditional banks. Mitty Owens, director of microloans at Self-Help, a nonprofit community-development financial institution in Durham, N.C., says that microloan decisions are

based on a number of factors, including character references and the amount of money, time, and effort the applicant has put into the endeavor. To find out about such programs in your region, contact the Association for Enterprise Opportunity, a Chicago-based trade group, at (312) 357-0177.

You could also apply for other types of SBA loans. Check the blue pages of your phone book for the number of a local office of the agency.

GETTING STARTED

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I plan to open a kitchen-specialty shop. Can you help me get information on finding distributors or manufacturers for such a store?

M.B., Selma, Ala.

The National Housewares Manufacturers Association, in Rosemont, Ill., sells a \$100 membership directory that lists manufacturers and distributors of the type of items you wish to sell. The association will hold an international housewares trade show Jan. 12-15 in Chicago. For more information, call (847) 692-0100.

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Where can I find information on starting a small commercial printing business?

B.D., Center, Texas

Printing Industries of America, a trade association, offers many publications that



can help you get started. To obtain a catalog, call the association's Alexandria, Va., office at 1-800-742-2666.

The National Association of Printers & Lithographers is another possible resource. To find out about membership benefits, call the group's Teaneck, N.J., office at 1-800-642-6275.

Fast Forward

I am interested in opening a video-rental store. Are there organizations or associations that can give me information?

T.T., Miami

Specific information, such as the going rate for a one-night video rental, can be obtained from the Video Software Dealers Association. The VSDA provides member services such as business insurance, a membership directory, and a quarterly publication, *VSDA Video Retailing Handbook*. A one-year membership costs \$175.

For more information, call the VSDA in Encino, Calif., at 1-800-955-8732.

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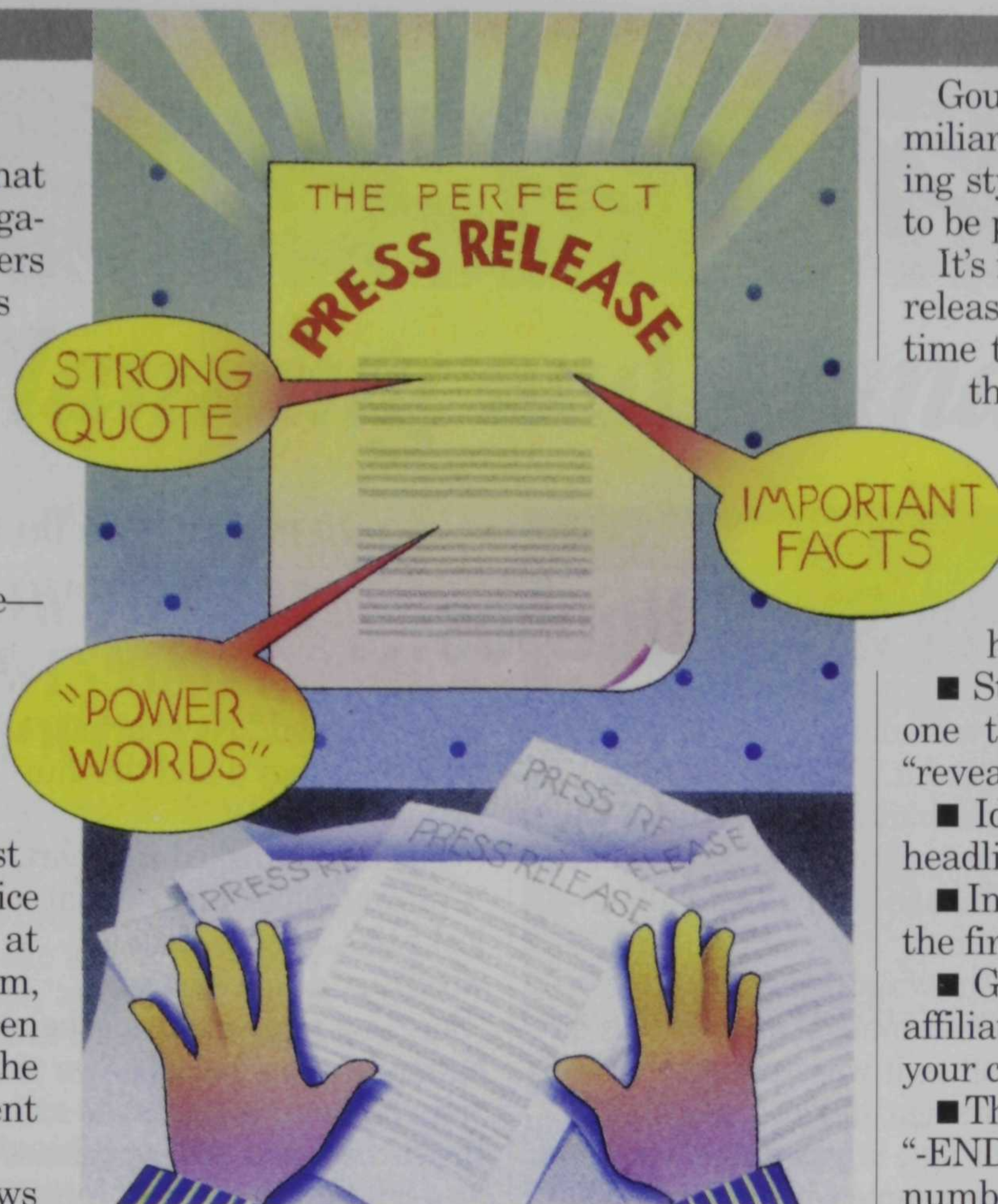
I will be attending a trade show that will be covered by about 30 magazines. One of the show's organizers suggested I send out news releases to capture media attention. I also wish to distribute press releases to other journals. What kind of information should I include?

M.S., Saddlebrook, N.J.

A brief, well-crafted news release—rich with information and appropriately organized—can help your company gain media attention and coverage. A one-page, double-spaced release printed on your company letterhead is the most effective format, says Tag Goulet, vice president of communications at Digital Explorer Media, Inc. The firm, based in Calgary, Alberta, has been set up to produce home pages on the Internet for clients such as event marketers and corporate sponsors.

"Besides looking good, your news release must be written in the appropriate style," Goulet has written at <http://www.mixteca.com/entrepreneur> on the Internet. Place the most interesting facts at the beginning, she suggests. Keep

sentences short. Use the present tense, the active voice, and the third person, and include quotes from a company spokesperson, possibly yourself.



Goulet also advises that you become familiar with—and then emulate—the writing styles of the media in which you wish to be publicized.

It's important to put a date on the press release; journalists sometimes don't have time to look at your release the day that they receive it.

Alan Caruba, a public-relations counselor in Maplewood, N.J., has written a pamphlet, *Getting Famous! How to Write a Successful News Release*, in which he offers the following tips:

- Start with an eye-catching headline, one that uses "power words" such as "reveals" or "exposes."

- Identify your company in a smaller headline as the source of the information.

- Include a strong quote or statement in the first paragraph.

- Give your spokesperson's position or affiliation and some information about your company in the second paragraph.

- The press release should conclude with "-END-" and then provide names, phone numbers, and addresses of people to contact.

Caruba's pamphlet is available for \$5 from The Caruba Organization, P.O. Box 40, Maplewood, N.J. 07040; (201) 763-6392.

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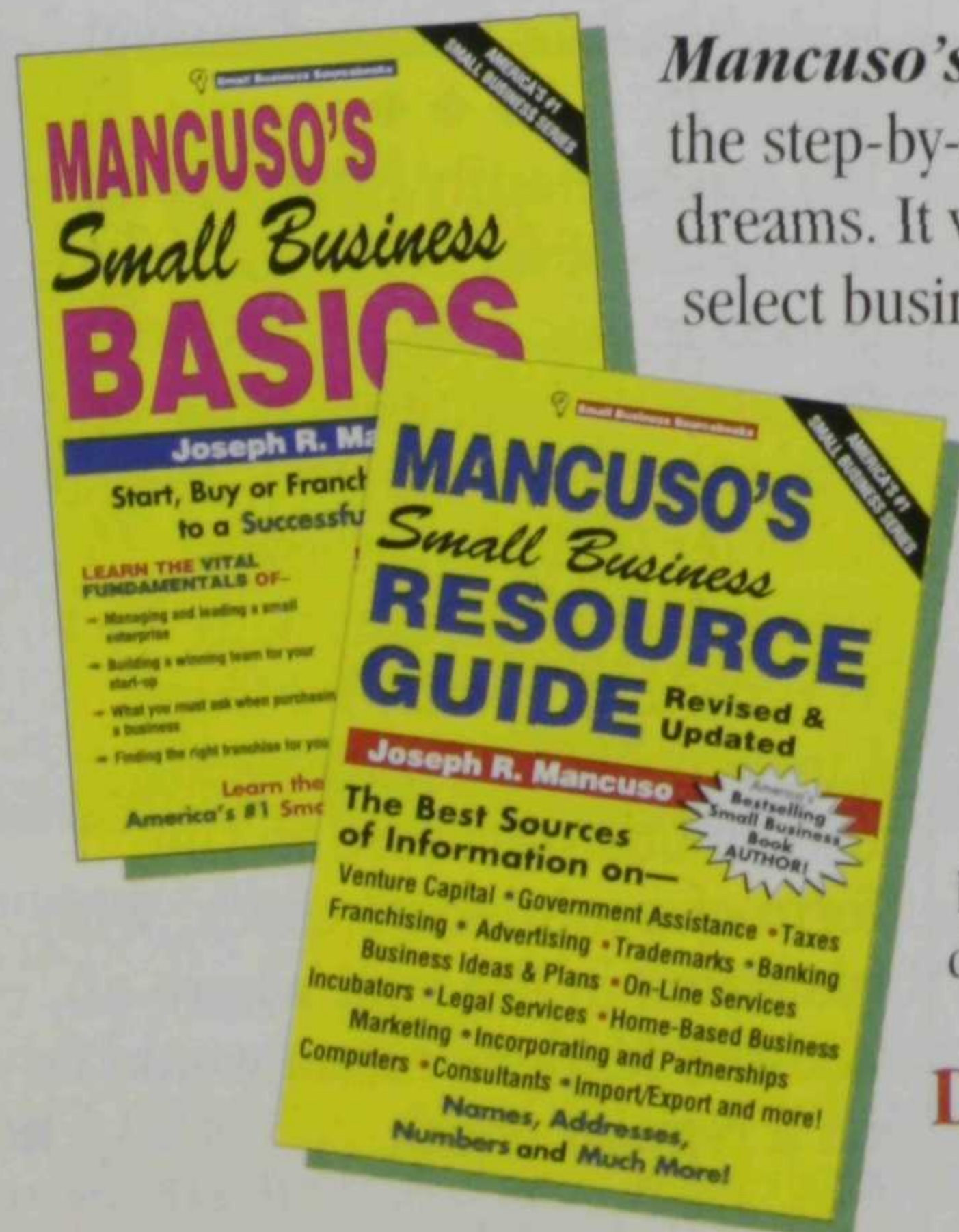
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People Who Live In Steel Houses...

The man who lives in a steel house can throw all the stones he wants to. If he wants to. Not that David E. Newhart does.

Newhart's company, Builtwright Systems, Inc., makes steel houses, and he works in one. That house is set up inside the warehouselike facility his company occupies in Duarte, Calif., east of Los Angeles. It was made for a buyer in Japan who had ordered the house, he explains, "but the guy didn't pay us, so we just put it up inside the plant." (Steel-frame housing is attractive to the Japanese, Newhart explains, because of its relatively low cost.)

As Newhart says, "The house just looks like a house. It doesn't look like a steel house." Strictly speaking, it's a steel-frame house. Its interior walls look like ordinary drywall, and its exterior walls look like stucco (they're actually acrylic); but inside those walls, where wooden studs would be in an ordinary house, are steel beams.

Newhart makes prefabricated steel-frame panels, doors, and trusses, which he says can be assembled as a house in as little as three days. Other companies make steel housing components of one kind or another, but, he says, only Builtwright makes finished panels with the necessary wiring, insulation, windows, and, in some instances, plumbing.

"We're the only people doing it the way we're doing it," Newhart says with a wry chuckle, "which probably means we're wrong."

When he started selling panels three years ago, he says, "no [government] building departments really understood what

we were doing. None of them trusted it. Typically, you'd go into a building department with a set of plans, and you might as well have been speaking Hungarian."

But winning acceptance of steel framing is no longer as difficult as it was, he says: "Two years ago, it was impossible. A year ago, it was a problem. Now, people who don't understand it realize they're behind the curve, so they say they do."



Newhart has been involved with steel all his working life. He started out with U.S. Steel, marketing new products like steel stakes for grapevines—"weird sorts of stuff," he says. He got into building steel-frame houses when he owned a company that manufactured commercial coaches (the temporary structures used as portable classrooms, among other things).

He was in Hawaii in late 1992, after Hurricane Iniki hit, when he ran into the owner of a large home-building company. "The termites were eating him

up, really bad," Newhart says, "and then they'd had this hurricane."

The builder asked Newhart, "Can you make a house that looks like a house with no wood?" and Newhart said, "Sure"—a reply made all the easier, he says, because "we were basically going broke at that time in our other business" as a result of the severe recession in California.

In 1993, fueled by the builder's money, "we did five

years' work in about eight months," Newhart says, testing and designing steel-framed houses with the help of around two dozen architects and engineers. Newhart shut down his other company, moved to a new location—with the same people—and started Builtwright.

Builtwright made only four houses and eight duplexes at Duarte in 1995, but Newhart expects that 1996 will show a total of about 75 houses. Capacity at Duarte (and at two new plants in northern California and Arizona) with a single shift

of 12 people is about three medium-sized houses a week, he estimates. Builtwright works with four contractors who know how to put up its panels, including one contractor who works for Builtwright full time.

Ultimately, Newhart believes, steel will become the preferred building material. "It's just better stuff," he says—and there is plenty of it, especially now that most steel is recycled.

The panels are much stronger than standard residential construction, he claims, "because we designed the things in light of the hurricane in Hawaii and for a seismic zone, which is the same kind of criteria as for an 80-mile-an-hour wind. What we sell is not so much what we make it out of, but what the benefits are."

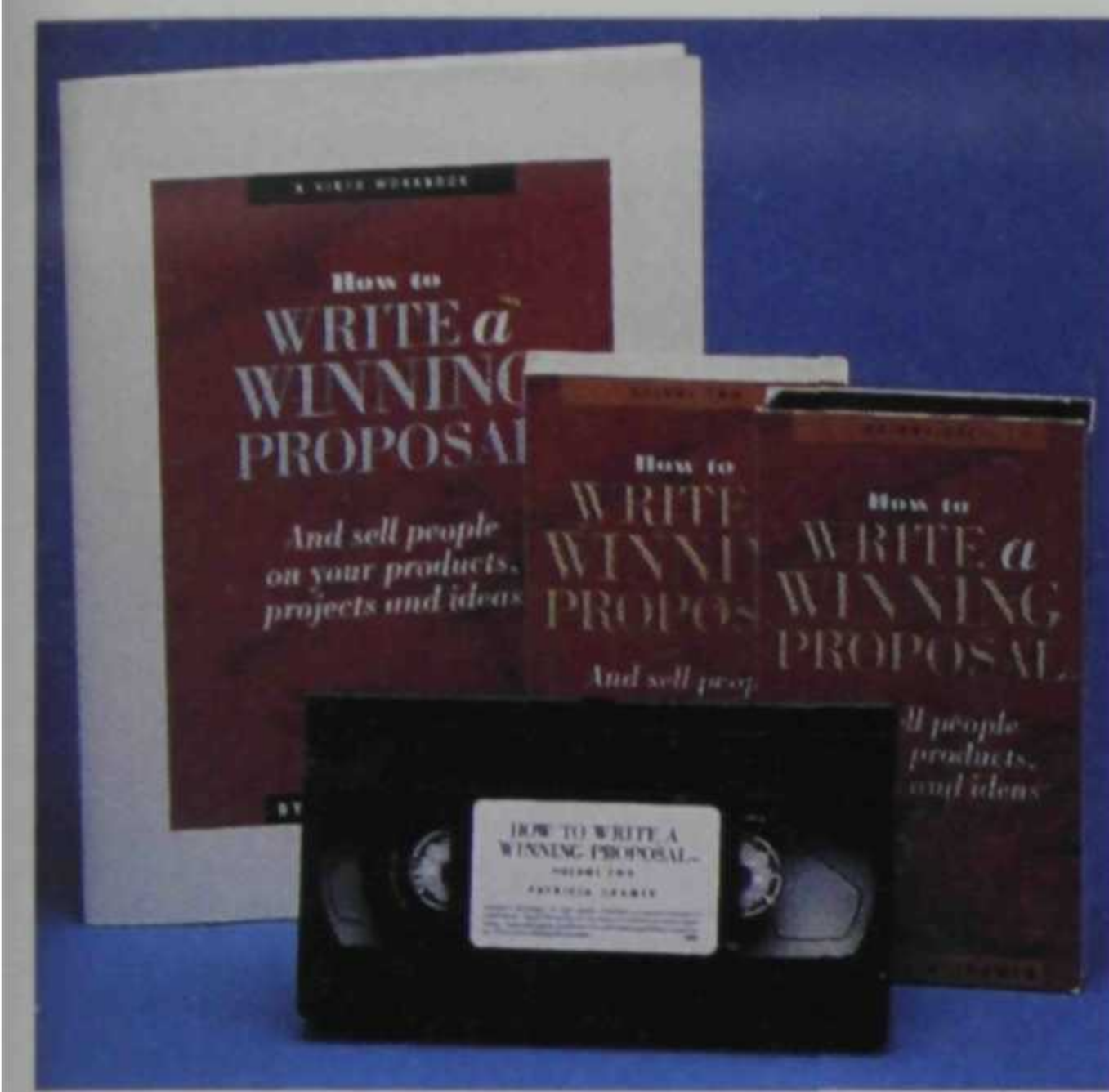
Two obvious questions suggest themselves about a steel-frame house. For example, how do you hang pictures on those steel studs? A metal drill and a screw will get the job done. (If that sounds like a bit of a nuisance, bear in mind that finding the stud with a magnetic stud-finder is a *lot* easier.)

The biggest question, of course, is: What happens when lightning strikes a steel-frame house? "It's a perfect ground," Newhart says. "It's much better than a lightning rod. But nobody has ever believed me yet."

◆◆◆

We inadvertently misspelled the name of an individual mentioned in our July installment on unusual business cards. Our apologies to Thomas J. Linnemeier (not Linnemeyer), senior vice president with Fort Wayne (Ind.) National Bank. Linnemeier, you may recall, used a business card in the form of a miniature check, with his name in the spot where an account holder's name would be on a regular check.

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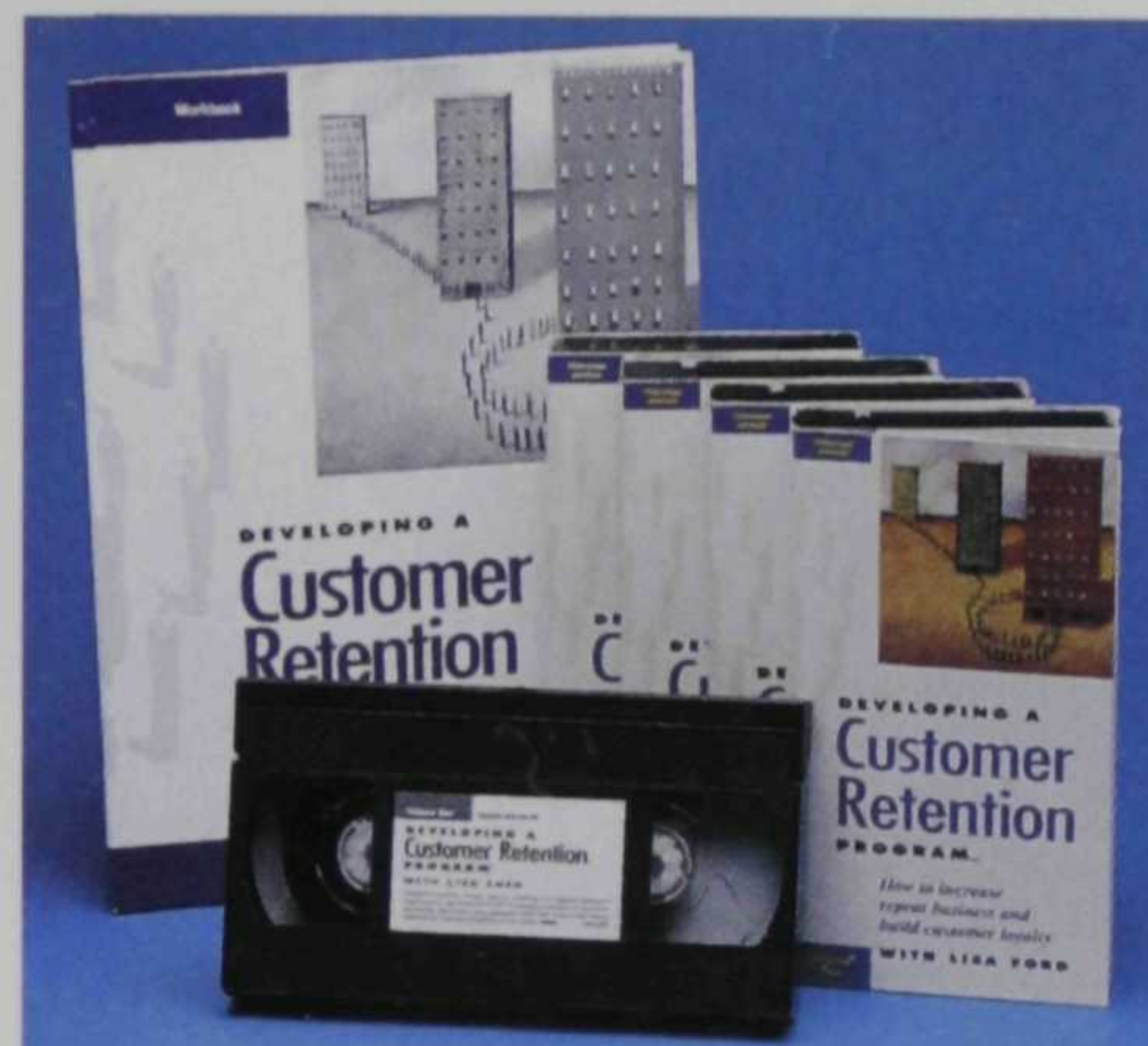
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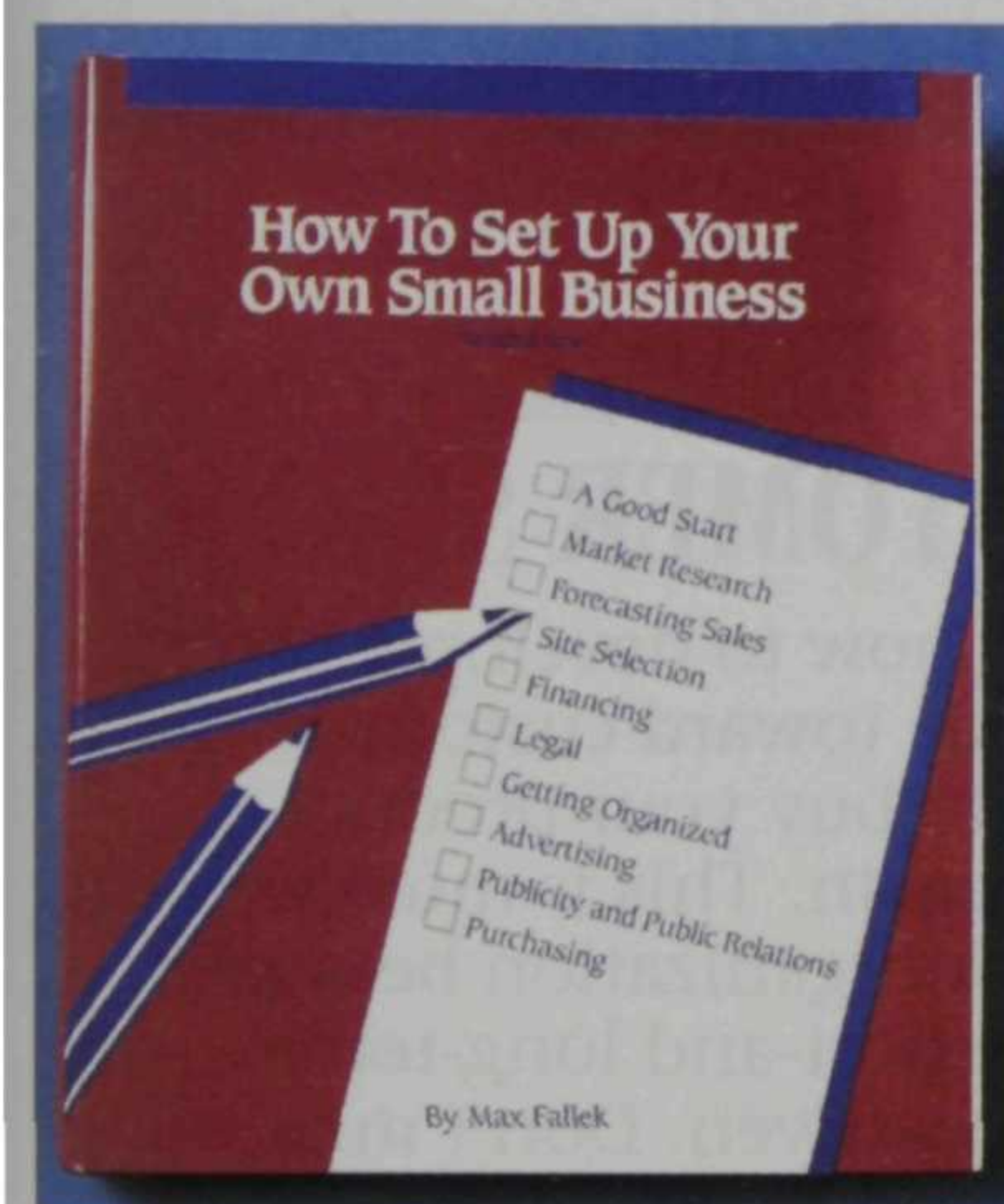
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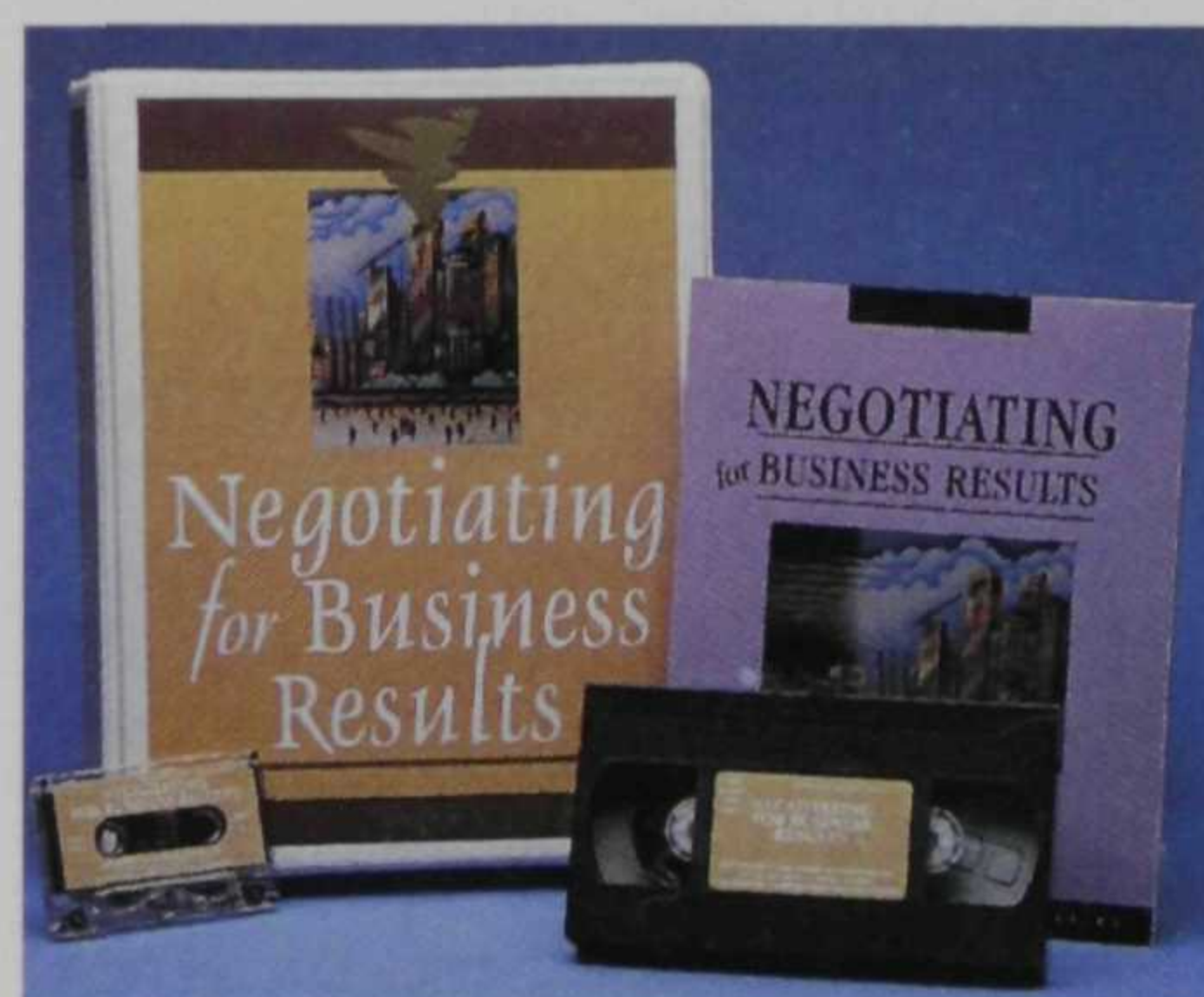
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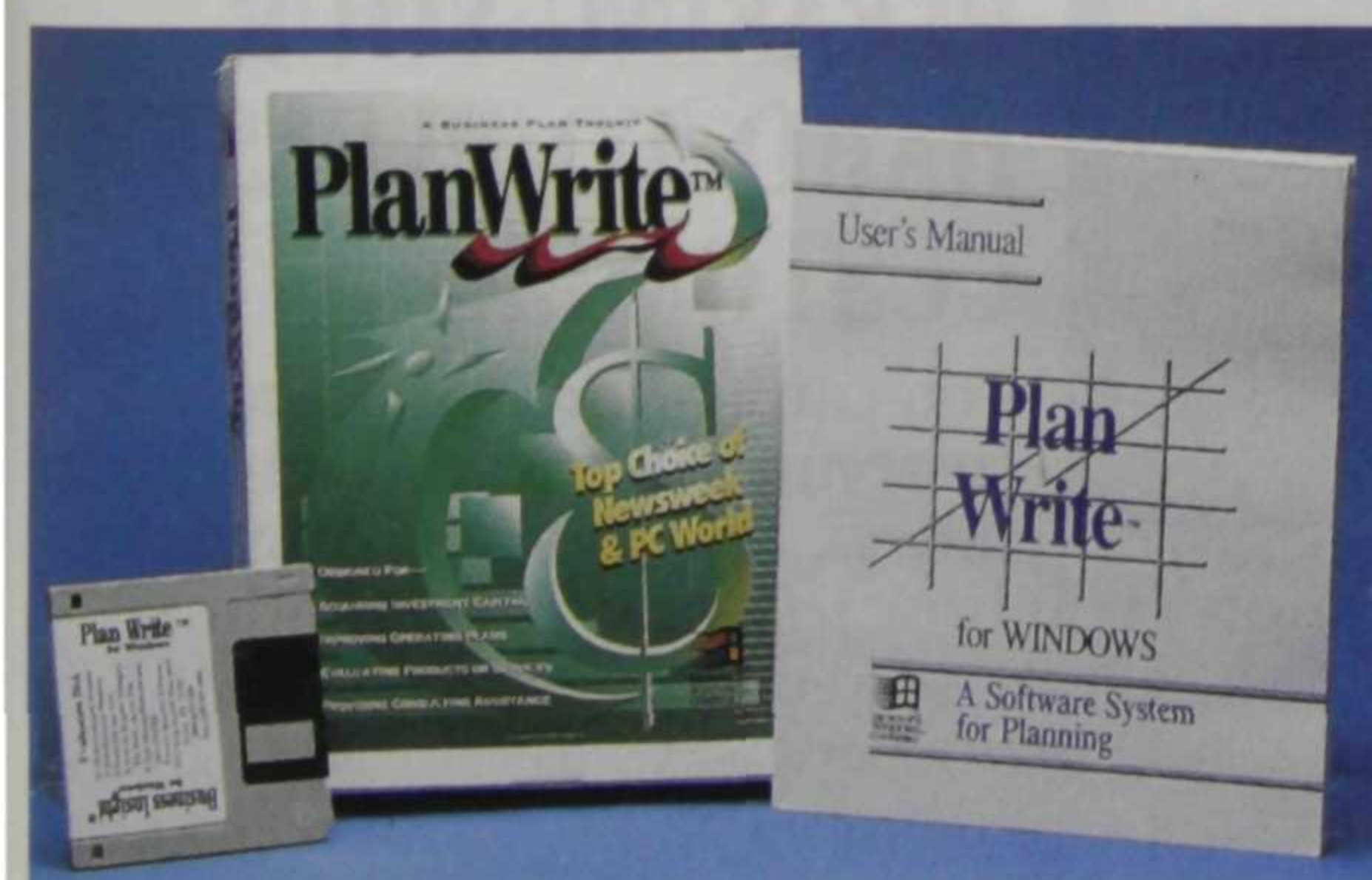
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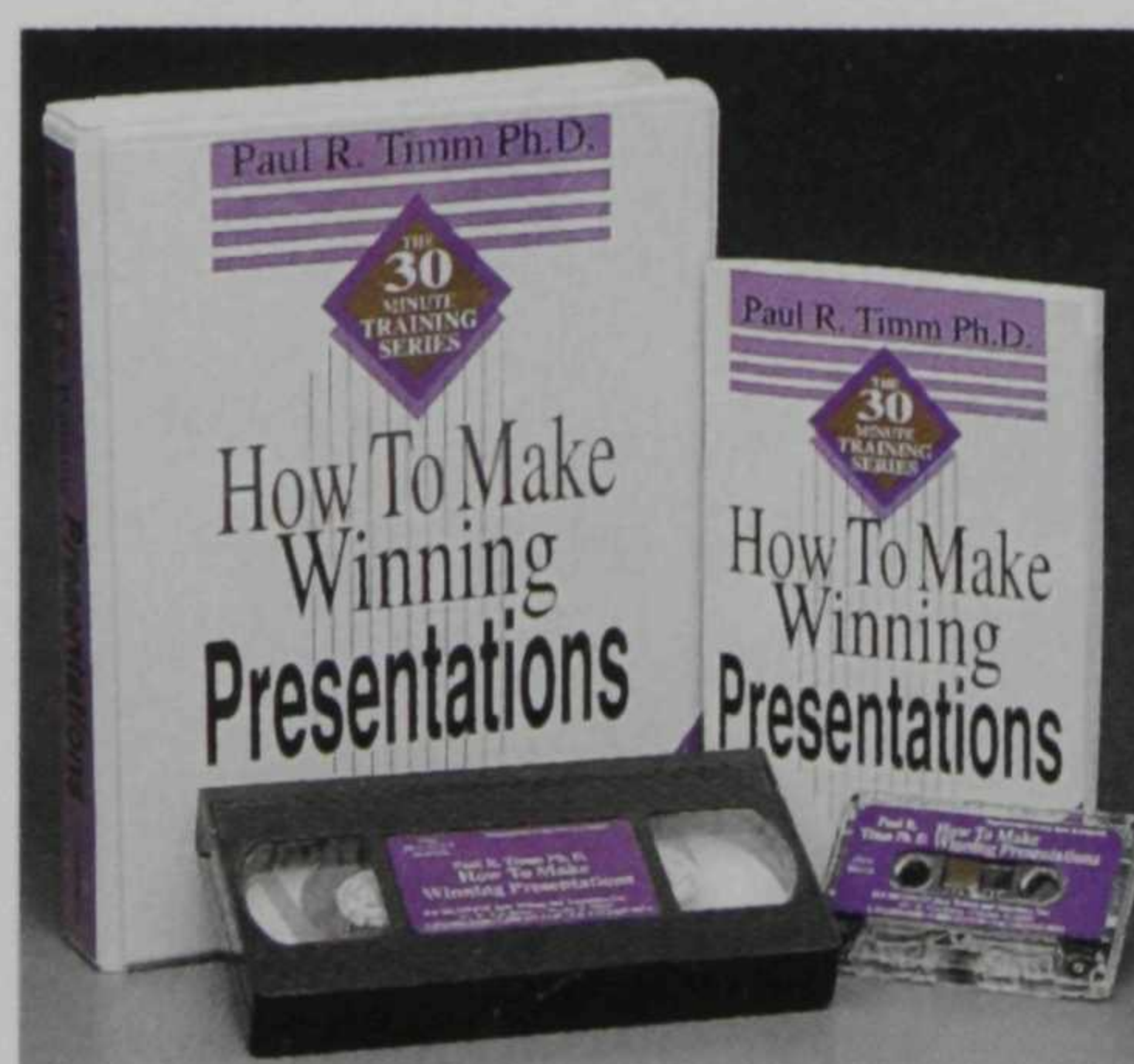


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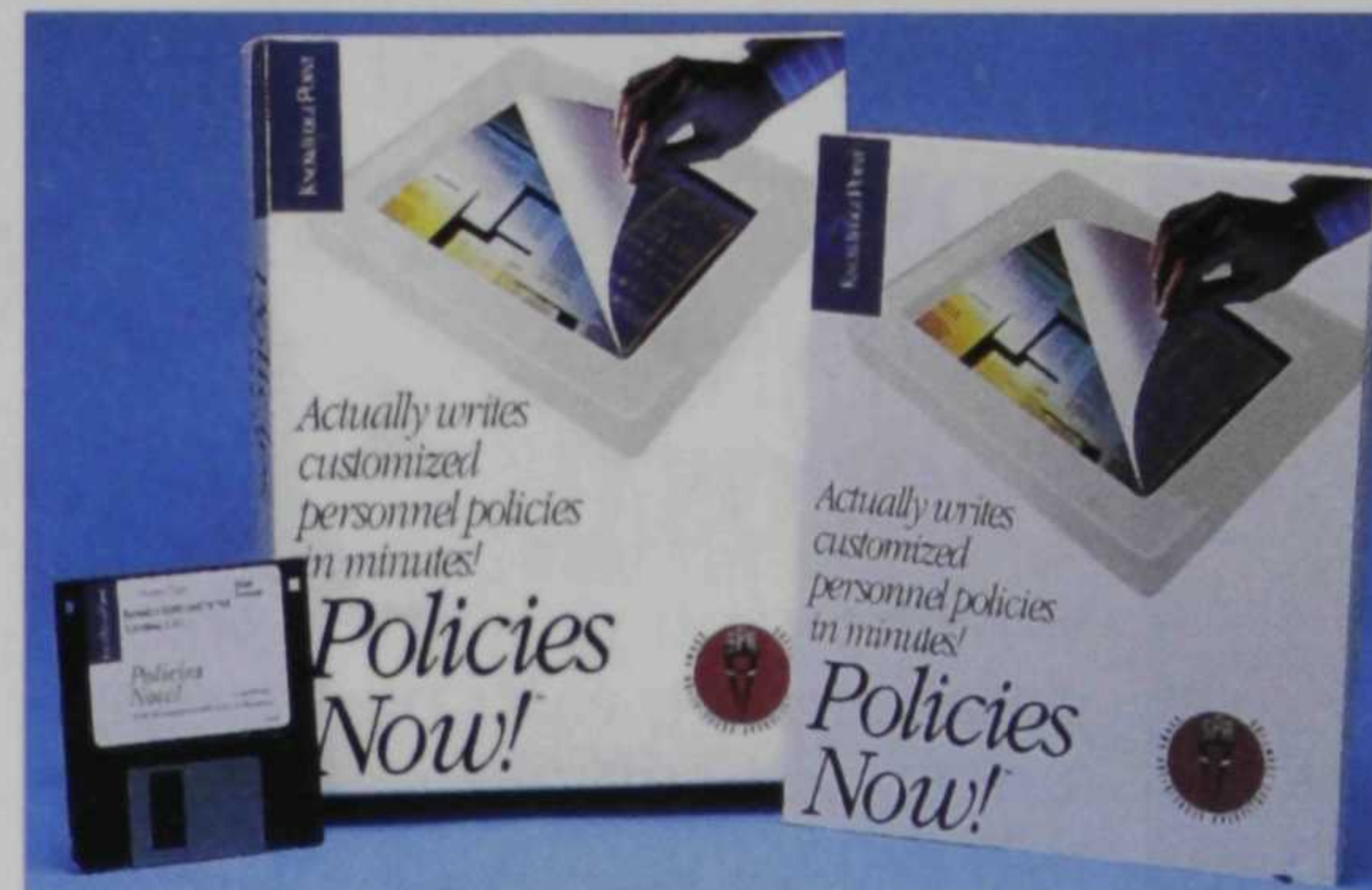
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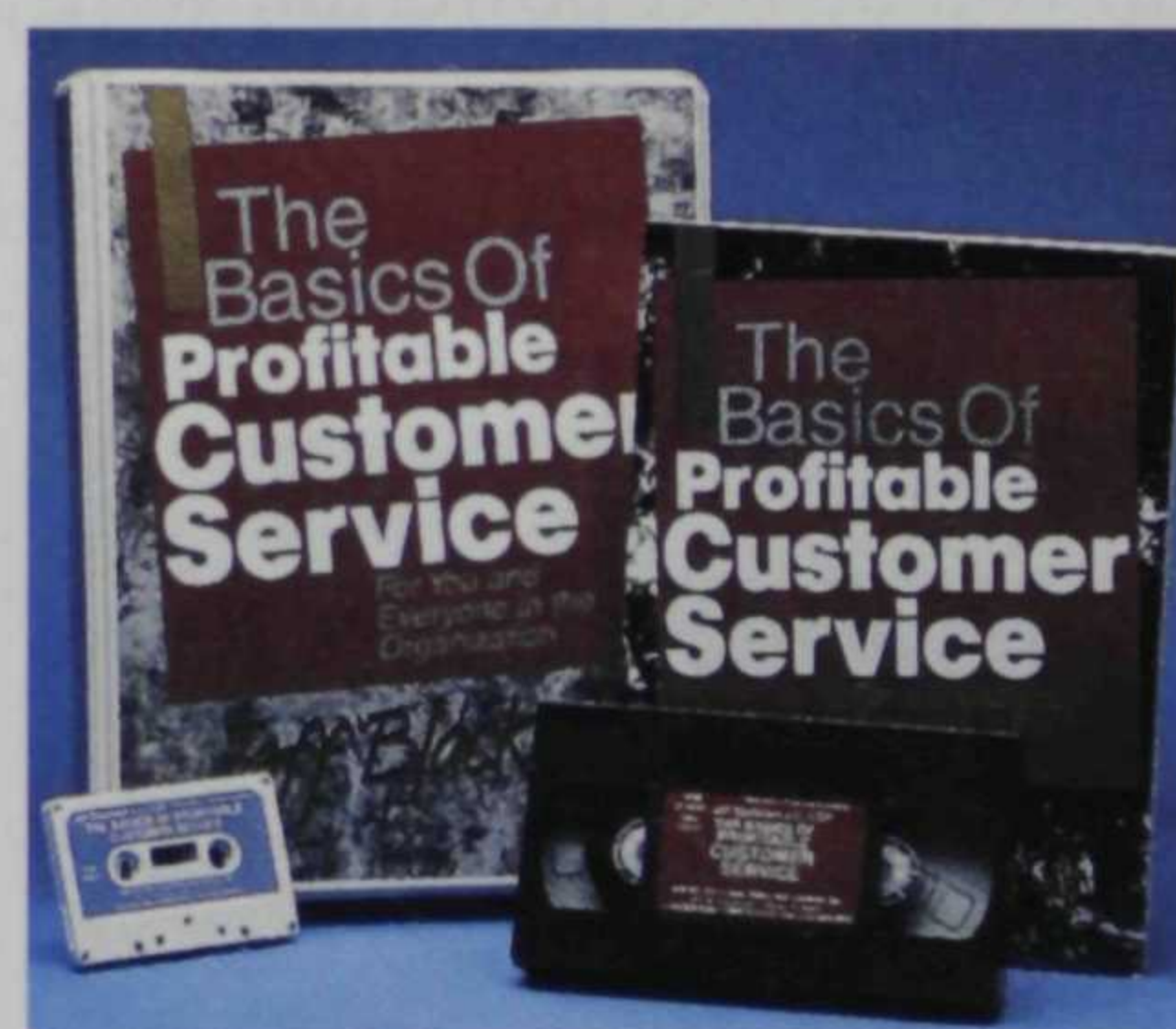
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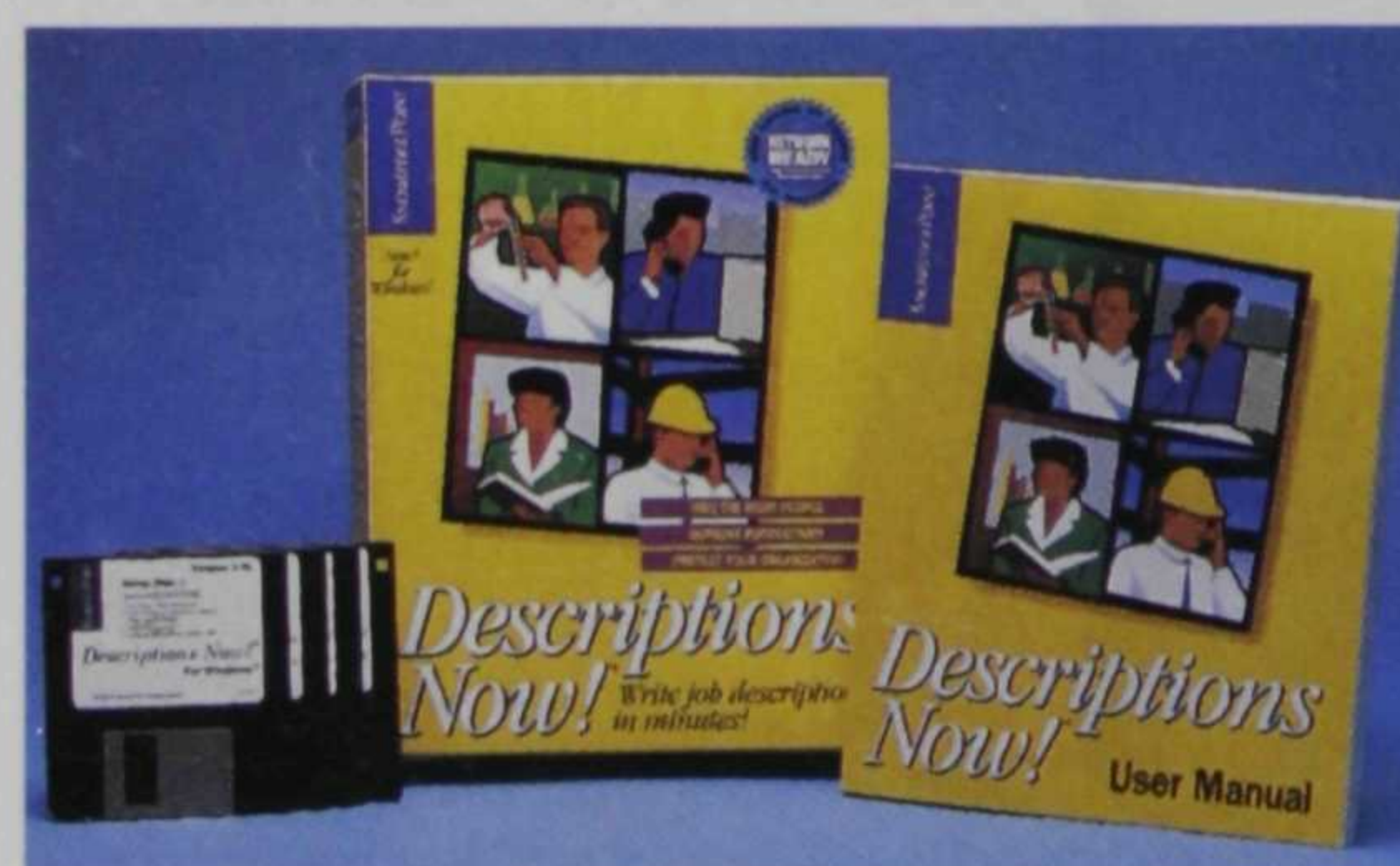
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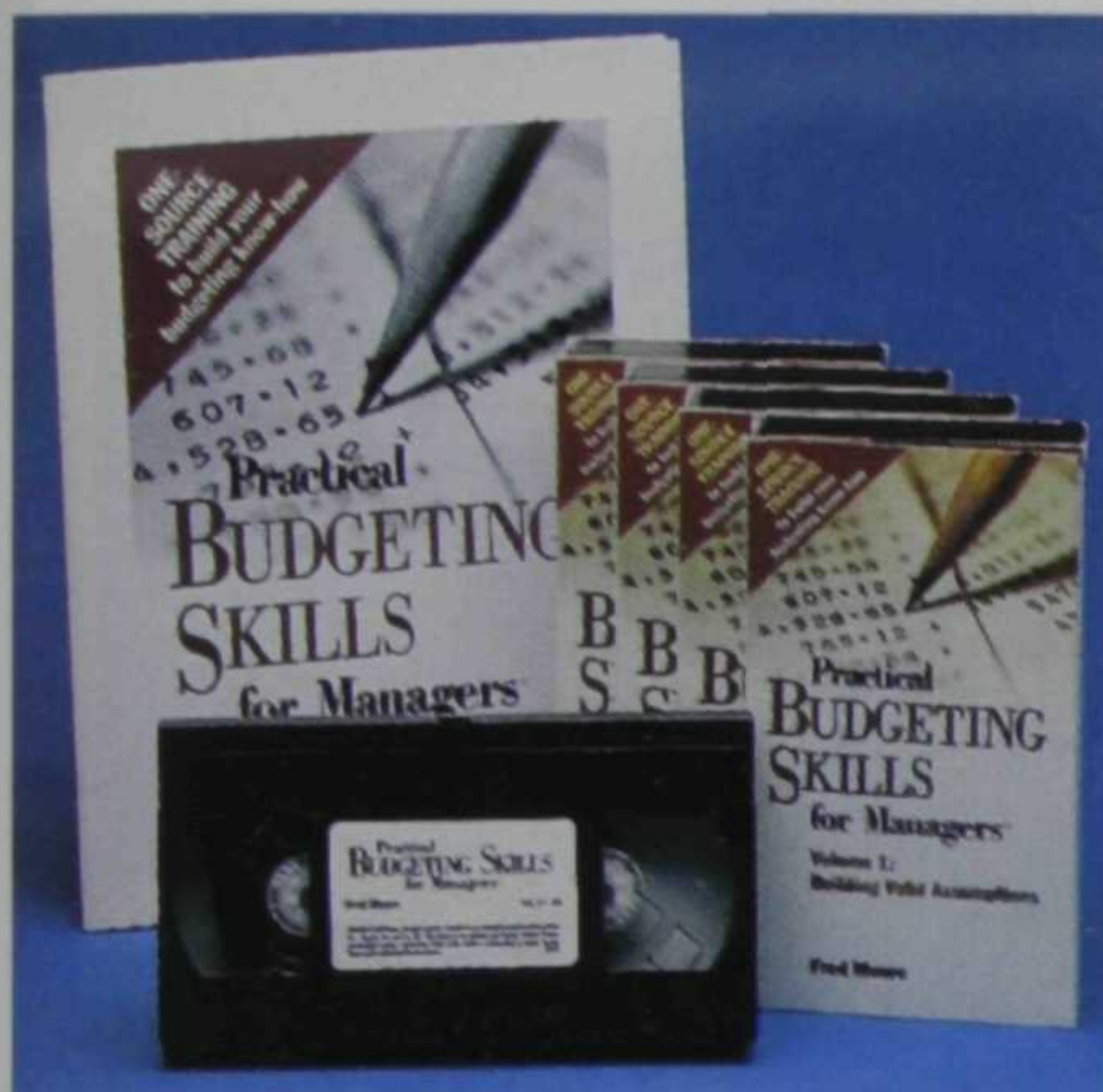
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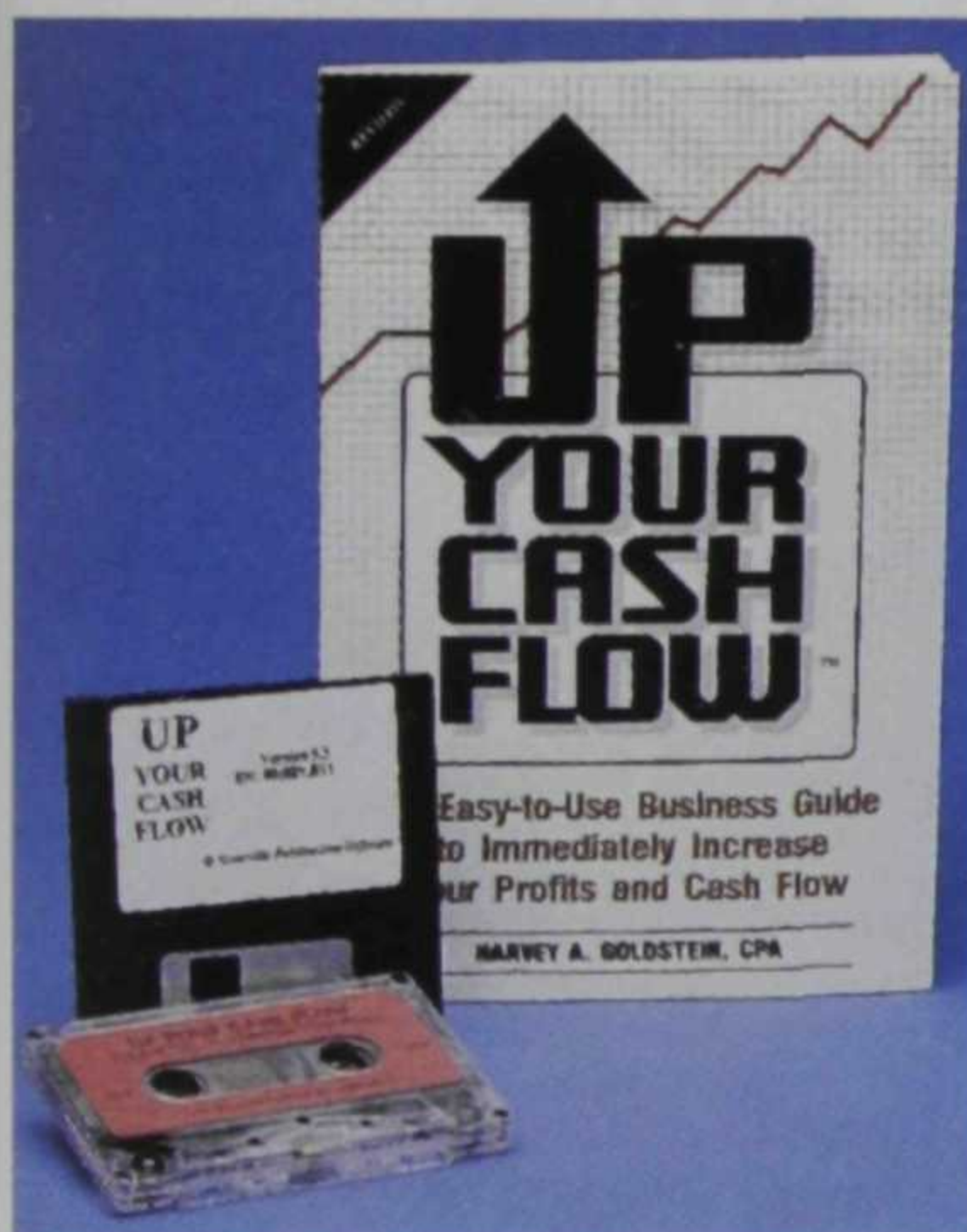
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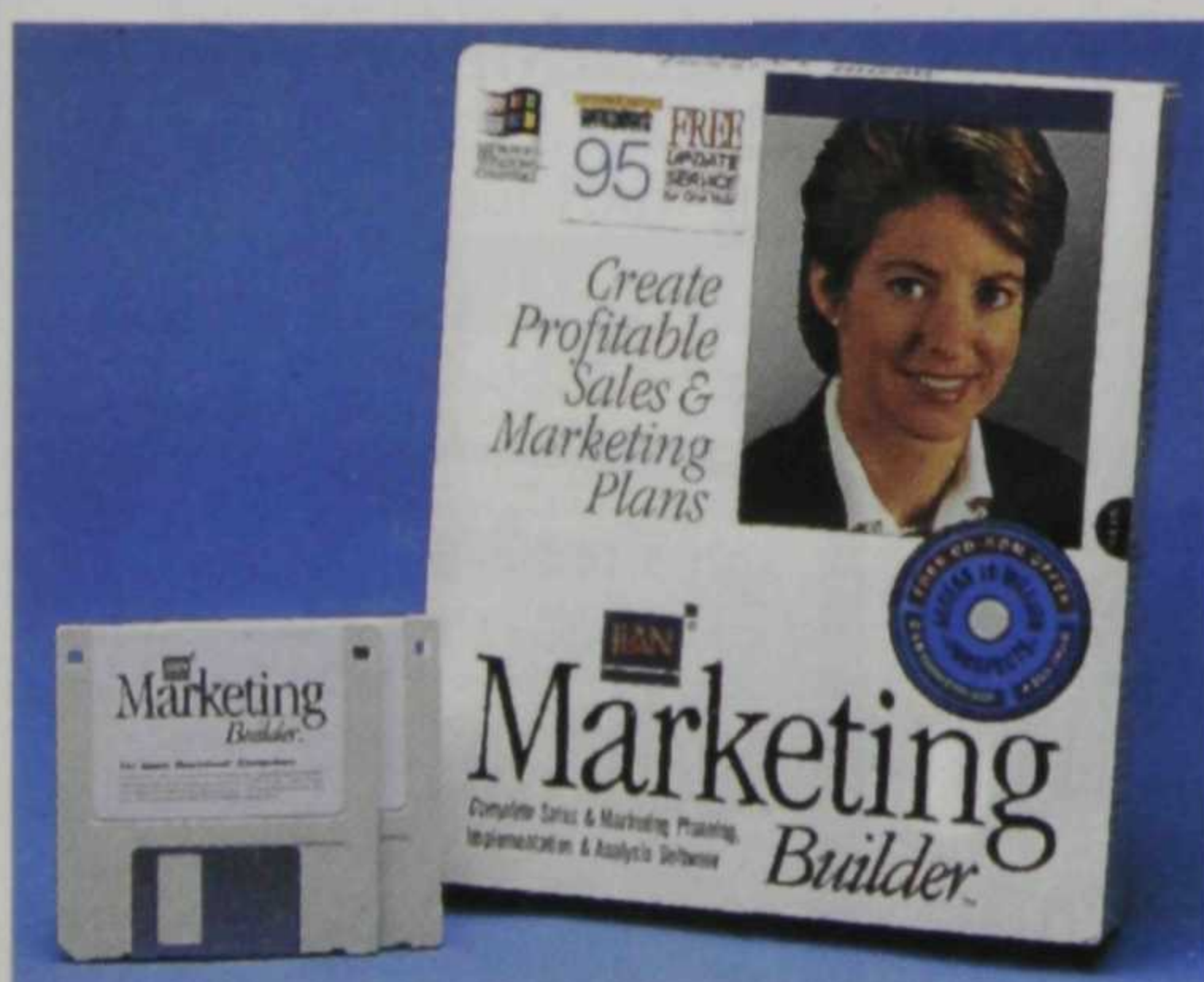
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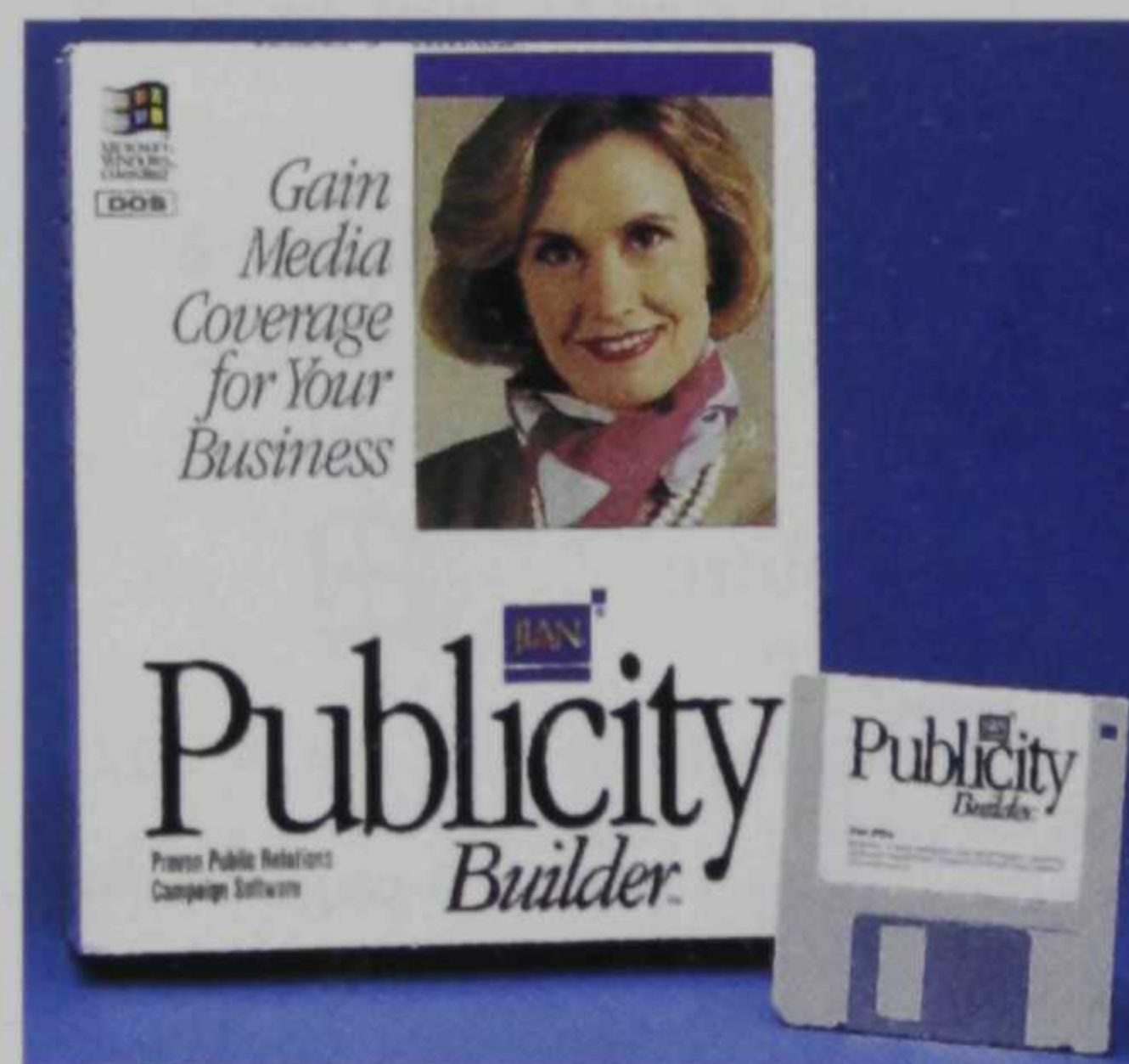
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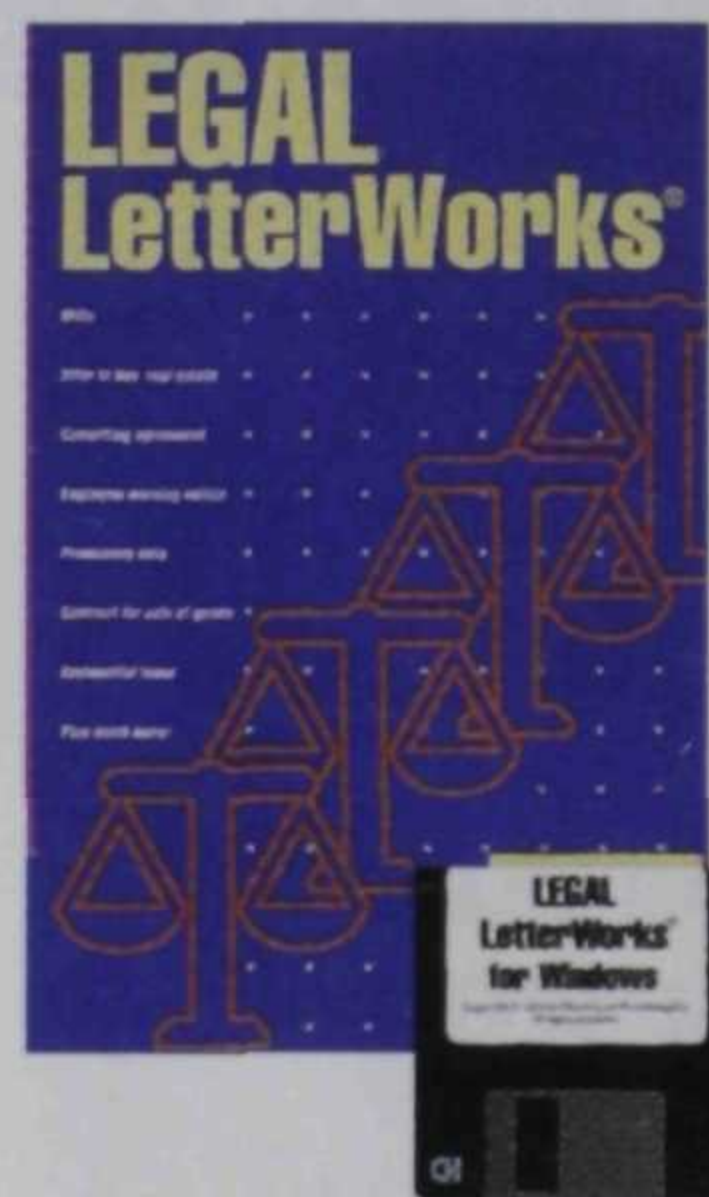
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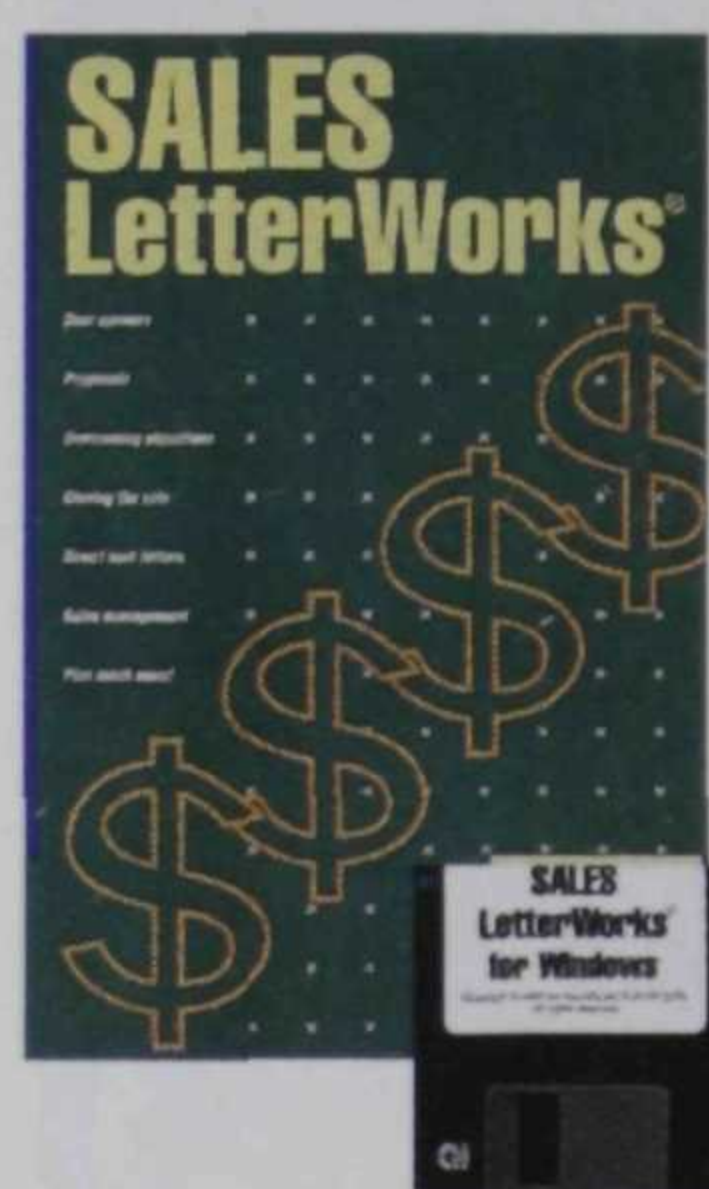
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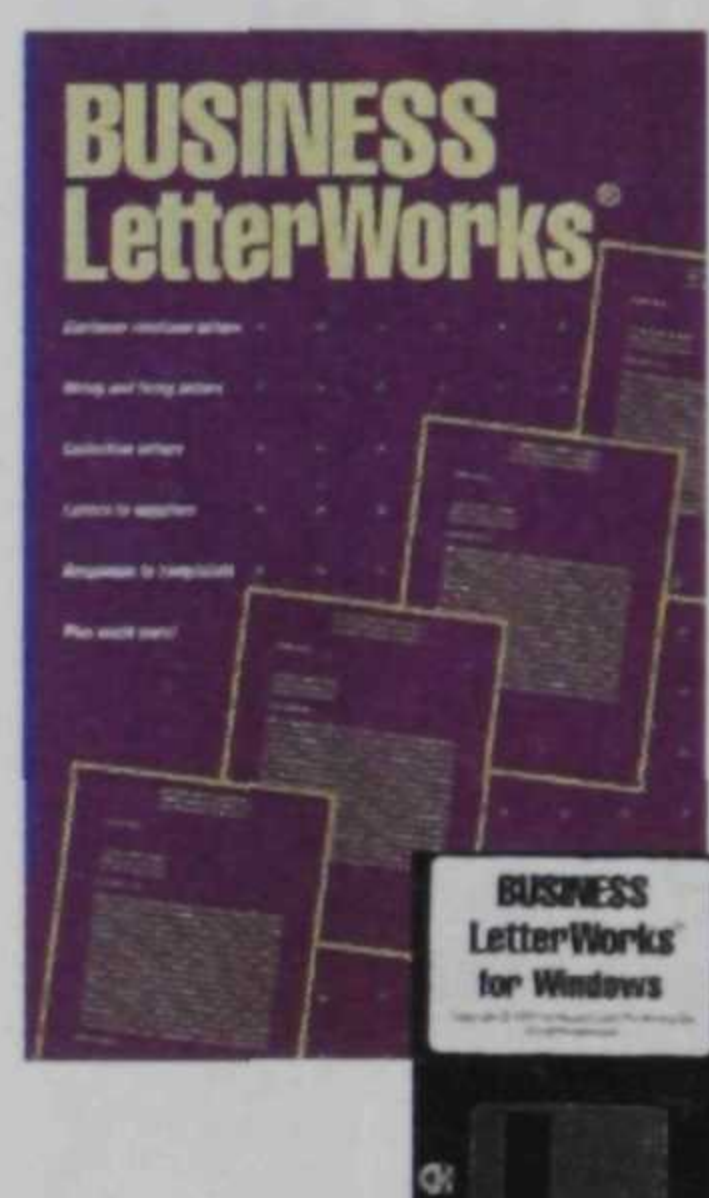
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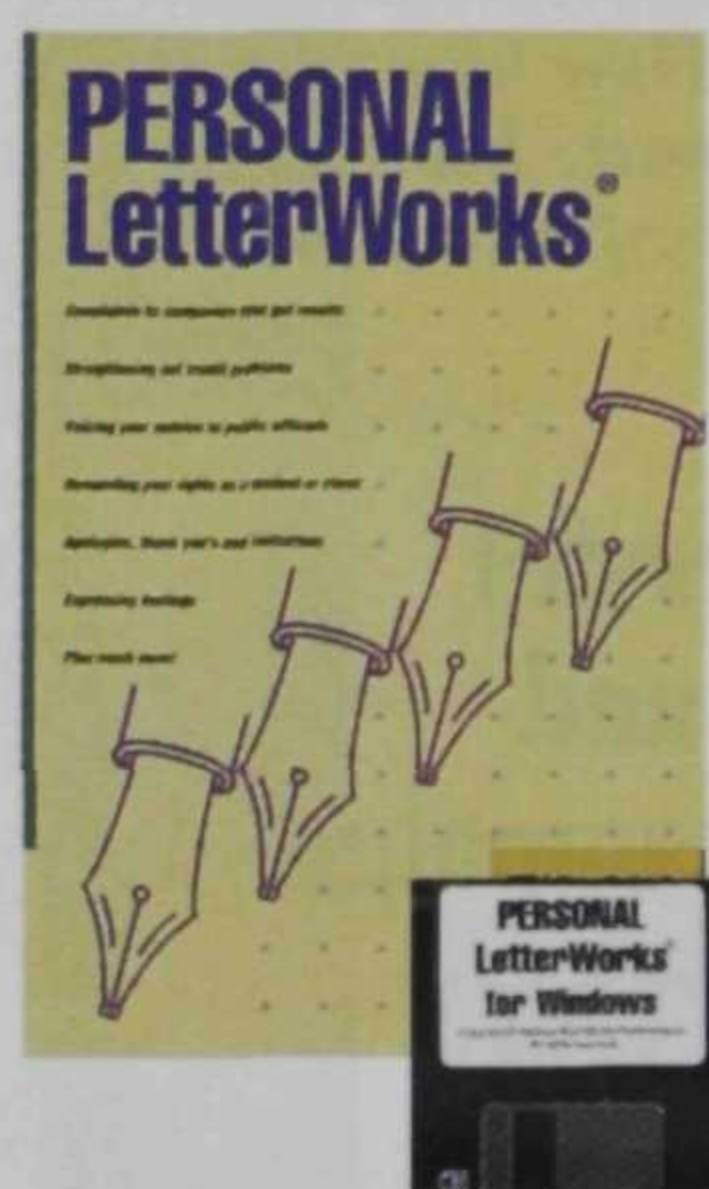
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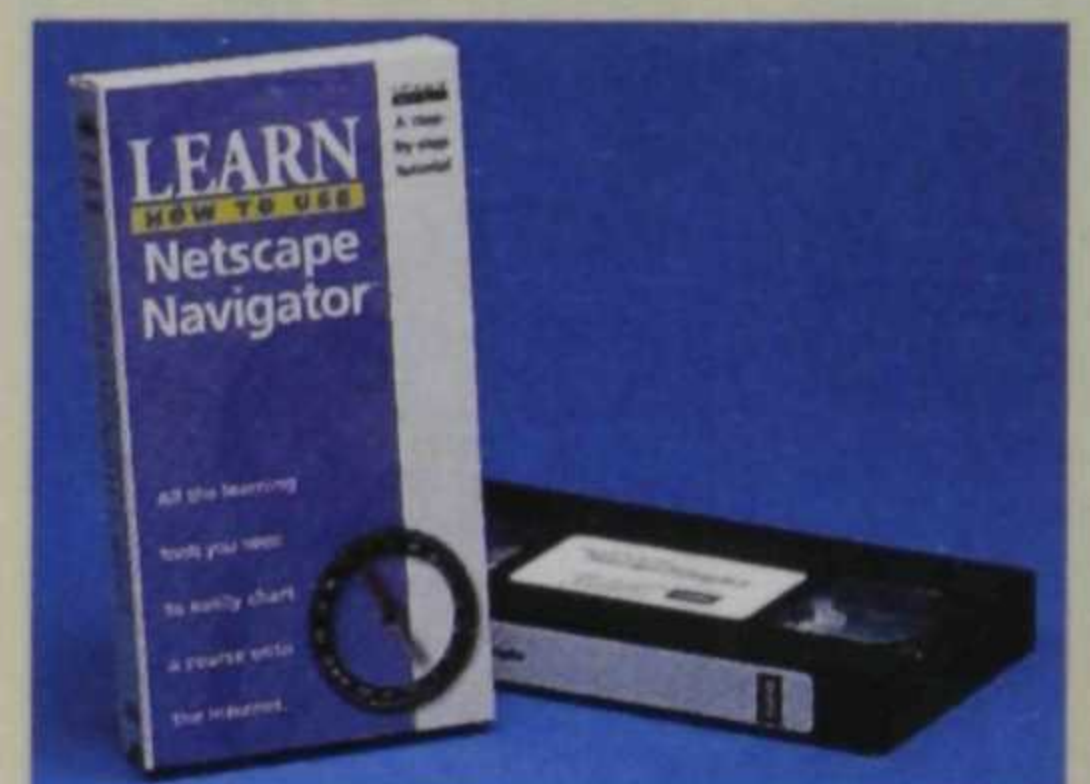
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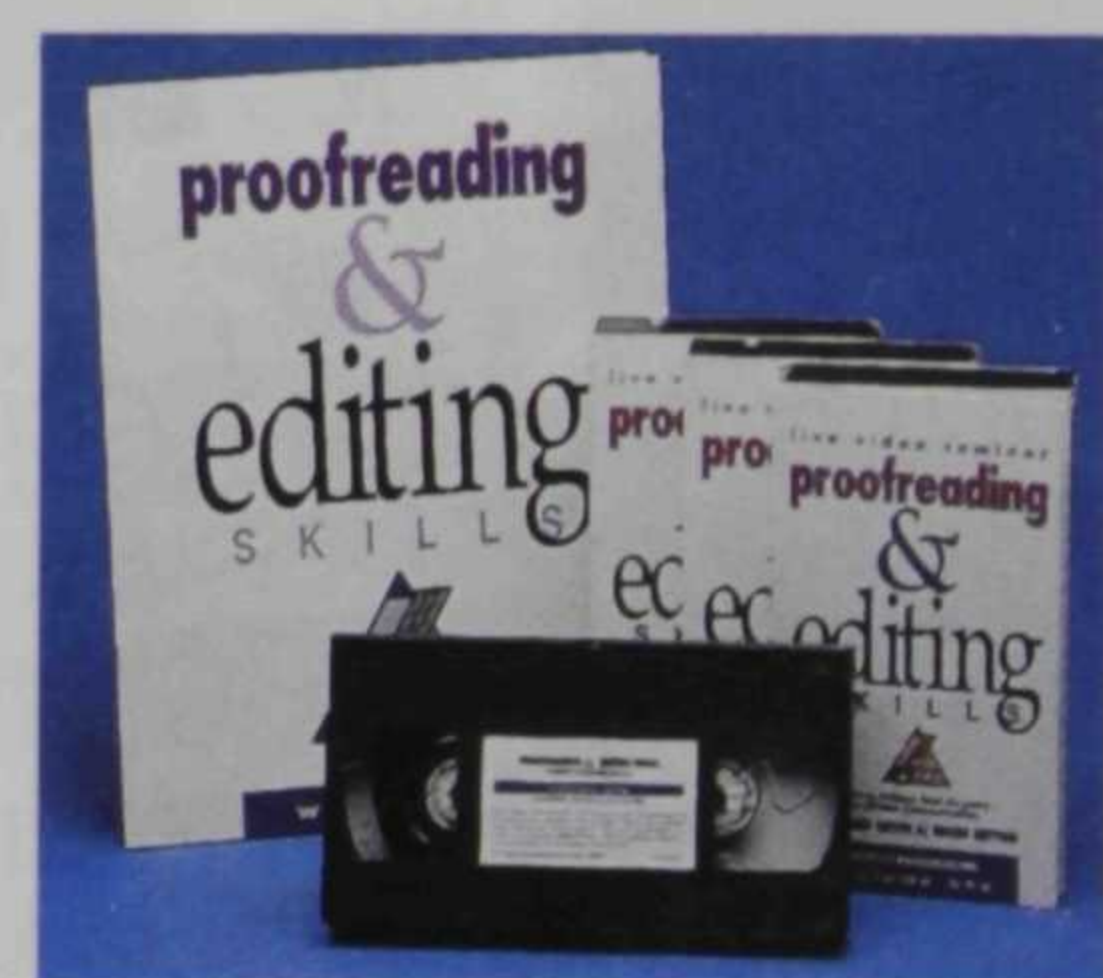
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September Poll Results Readers' Views

Bullish On Technology

Most small businesses will significantly increase their use of advanced communications technology in the coming year to serve customers better, according to results of a recent poll by *Nation's Business*.

Results of the Where I Stand poll in the September issue indicate that many respondents plan to increase their use of electronic mail and on-line services or the Internet within the next 12 months.

In indicating plans to increase use of technology, nearly two-thirds cited a desire to offer new services or improve

current services to customers. Respondents also expect to provide more toll-free telephone support and to increase their use of cellular phones and videoconferencing.

The poll also indicated, however, that many respondents are discouraged from moving ahead with new technologies; half cited cost for their reluctance, and about one-fourth cited complexity.

Two-thirds of all respondents said new laws are needed to protect individual privacy and the security of electronically transmitted information.

Here are the complete results:

Questions And Answers

**Which technologies do you currently use in your business?
(Note all that apply.)**

Cellular phone	78%	On-line services or the Internet	27%
E-mail	54	Videoconferencing	2
Toll-free number for customer support . .	53		

**Which technologies do you plan to add in the next 12 months?
(Note all that apply.)**

Cellular phone	13%	On-line services or the Internet	46%
E-mail	31	Videoconferencing	12
Toll-free number for customer service . .	17		

What usually is your main reason for adopting a new technology?

To provide new services	26%	To increase employees' productivity . .	19%
To reduce costs	19	To improve service to customers . .	36

What usually is the primary factor that dissuades you from adopting a new technology?

Complexity	29%	Privacy and security concerns	7%
Cost	51	Need for more information	9
Fear of obsolescence	4		

Which of the following services or products do you believe can provide adequate privacy protection and information security? (Note all that apply.)

The public telephone network	32%	Private company networks	36%
On-line services	12	Encryption software	49
The Internet	9		

Are new laws needed to protect individual privacy and provide security of information transmitted electronically?

Yes	66%	No	34%
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Are new laws needed to protect copyrighted material and other intellectual property transmitted electronically?

Yes	63%	No	37%
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Is America Ready?

The president and the Congress elected Nov. 5 will face a 1997 agenda filled with important national matters. Indicate how ready you think the public is for the steps needed to resolve the issues listed below.

Results of this poll will be published in the

January *Nation's Business* and will be forwarded to administration officials and congressional leaders. Send the attached, postage-paid Reader Response Card. Or circle your answers and fax this page to (202) 463-5636.

1

Cut federal spending more to eliminate the deficit by 2002.

1. The public is ready.
2. More education is needed.

5

Make federal regulations easier to comply with and harder to issue.

1. The public is ready.
2. More education is needed.

2

Overhaul Social Security and Medicare to ensure that they have funds to continue operating in the future.

1. The public is ready.
2. More education is needed.

6

Limit financial and legal liabilities for businesses in lawsuits.

1. The public is ready.
2. More education is needed.

3

Reduce taxes for individuals and businesses.

1. The public is ready.
2. More education is needed.

7

Loosen labor-law restrictions on business.

1. The public is ready.
2. More education is needed.

4

Restructure the federal income-tax system.

1. The public is ready.
2. More education is needed.

8

Reorganize and consolidate federal job-training and education programs.

1. The public is ready.
2. More education is needed.

Send Your Response Today!

Commentary

Two federal programs are hamstrung by the archaic assumption that the disabled are helpless.

By Robert T. Gray

Double Standard On The Disabled

In 1990 the nation's physically and mentally disabled citizens achieved a long-standing goal. Congress passed the Americans with Disabilities Act (ADA) to give them greater access to public places and, perhaps more important, to jobs.

The law reflected the hope and determination of vast numbers of the disabled to prove that they could be self-sufficient.

In sharp contrast to that approach, two government-run programs continue to assume that the disabled are helpless.

These programs are disability insurance (DI) and Supplemental Security Income (SSI). The former was added to the Social Security system in 1956 to help individuals unable to work but still short of retirement age. Eligibility is not tied to other family income or to resources. SSI was established in 1972 to assist disabled people ineligible for disability insurance and lacking sufficient means of support.

As with entitlements generally, the growth trends of the two programs are as critical as current spending levels. (See the accompanying chart.)

While they don't get as much attention as the Social Security retirement and Medicare programs, DI and SSI are by no means minor items—they'll cost a combined \$74 billion in the fiscal year that began Oct. 1, or \$1.4 billion a week.

The key point is that the rapid expansion of these programs, both in numbers of beneficiaries and in costs, is running counter to current trends in the world of the disabled.

The Senate Special Committee on Aging has been investigating the link between the explosive growth of the disability programs

and the financial problems of the Social Security retirement system.

Committee Chairman William S. Cohen, R-Maine, pointed out that the disability-insurance fund is being kept solvent only with a long-term infusion of funds from the retirement system. "This transfer of nearly \$500 billion puts the retirement trust fund one step closer to insolvency," Cohen said. The funds will shore up the disability-insurance program through 2016. "At the same time we are reassuring

Hill by Jane L. Ross, director of income security issues for the General Accounting Office, a congressional watchdog agency.

"Societal attitudes have shifted," she said. "The Americans with Disabilities Act supports the full participation of people with disabilities in society and fosters the expectation that people with disabilities can—and have the right to—work. The DI and SSI programs are out of sync with these trends."

Ross pointed to technological advances—scanners, synthetic-voice systems, standing wheelchairs, modified automobiles and vans, and computer-aided prosthetic devices—that have enabled many disabled people to "tap their work potential," particularly in the economy's rapidly expanding service sector. And medical advances have enabled many of the mentally impaired to work, she added.


The GAO specialist on income security attributed the minuscule results in re-employment of beneficiaries to fundamental flaws in the two programs. Despite social, technological, and other changes affecting the disabled, the two programs "have remained essentially frozen in time," she said. "Applicants have a strong incentive to promote their limitations . . . and a disincentive to demonstrate any capacity to work."

Cohen, who will retire in January, wants Congress to shift the programs' emphasis from cash payments to re-employment via rehabilitation and other assistance. The alternative, he warns, could be a continuance of what's happened over the past 10 years alone—the number of individuals receiving payments went up 70 percent, to more than 7 million.

Sooner rather than later, Congress and the White House must address the politically explosive but unavoidable challenge of the Social Security system's long-term fiscal problems.

When they do so, they will almost surely have to recognize the conflict between the runaway growth of disability payments and the goals of the Americans with Disabilities Act.

Disability Programs' Escalating Costs (In Billions)



	Disability Insurance	Supplemental Security Income	Total
1960	\$ 0.5	\$ —	\$ 0.5
1970	2.8	—	2.8
1980	14.9	5.7	20.6
1990	24.4	11.5	35.9
1997	47.2	27.2	74.4
2002*	68.3	36.2	104.5

*Figures for 2002 are taken from the five-year projections in the 1996-97 federal budget.

SOURCE: HISTORICAL TABLES, BUDGET OF THE U.S. GOVERNMENT, FISCAL YEAR 1997

CHART: ALBERTO PACHECO

senior citizens that we are keeping our commitment to Social Security, a very real threat has been silently creeping up on the system—the uncontrolled growth of the Social Security disability-insurance program."

In calling for reforms in the programs for the disabled, Cohen said: "Appallingly, an average of only one of every 1,000 federal disability beneficiaries ever returns to work. . . . Far too often, getting on disability means a lifetime of benefits even for people who could, with some rehabilitation, retraining, or assistive devices, return to work."

The reasons for the growing problems in the disability programs were detailed to the committee in recent testimony on Capitol

Robert T. Gray retired in 1994 after 26 years with Nation's Business, 13 as editor.

Editorial

Nov. 5: The Only Poll That Counts

If you listen to the pollsters and pundits, you might think that the 1996 presidential election has been decided. They see the actual voting on Nov. 5 as merely a confirmation of their prescience.

The danger in their scenario is the possibility that many voters might accept it as inevitable and, as a result, neglect to cast ballots in an election with enormous significance for the economic health of the nation.

Over the past two years, a Democratic president and a Republican-controlled Congress have clashed over the basic issue of restraining government involvement in the private sector.

Their public disagreement arose from such major issues as spending, taxation, and government regulation. But a more deep-seated conflict actually stems from the fundamental question of whether the government will continue to deny American enterprise the financial and other resources and the freedom it needs to fulfill its potential.

With those stakes, it would be tragic if not only business people but others interested in a flourishing economy failed to vote in November because they accepted the poll results as final.

Those numbers are not necessarily as absolute as they appear in headlines or on television screens; they reflect the views of individuals already committed to a candidate.

Consider the findings of National Election Studies, a research organization based at the University of Michigan. It determined that in 1992, 25 percent of the 103 million citizens who cast ballots did not make their decisions until the final two weeks of the campaign. (See the accompanying chart.) And 8 percent, or about 8 million, did not decide until Election Day—when the outcome was determined by

a plurality of 5.8 million votes.

Then there is the big unknown of turnout. Since 1964, about 60 percent of eligible voters, on average, have actually cast ballots in presidential elections.

Most of the polls thus far reflect the declared intentions of respondents who say they will vote in November. It is not inconceivable that those very results might motivate individuals not planning to vote to go to the polls after all on Nov. 5.

Nevertheless, many citizens will forfeit their right to participate in the core act of a democratic society—choosing its leaders. Sadly, these nonvoters will include business owners, managers, and shareholders.

These individuals are seriously mistaken if they believe that the outcome of this year's elections, congressional as well as presidential, will not affect them and their businesses.

Despite strong opposition from the White House over the past two years, Congress has begun turning the national policy debate away from more spending, more taxes, and more regulation to the need to impose strong discipline in all three areas.

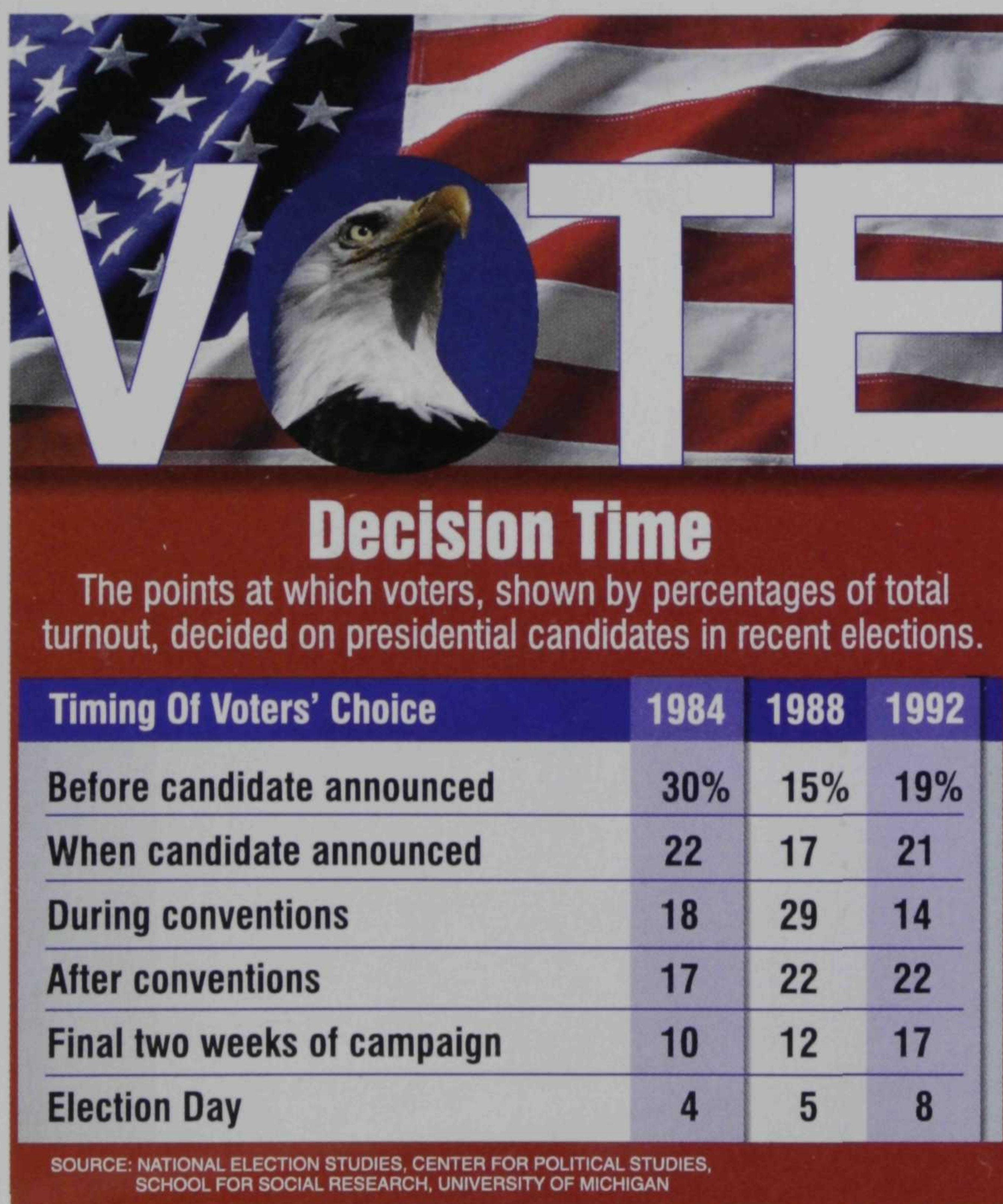
Should that trend continue? If it should, what political decisions need to be made to assure that it does?

Those questions will not be answered by polls, however well-meaning, but at the ballot box on Election Day. No business person should avoid participating in that ultimate poll just because so-called experts have anticipated the results.

Those who vote will be taking a stand that could well affect the future of their enterprises, their employees, their families, and their communities.

Those who fail to vote will be doing the same.

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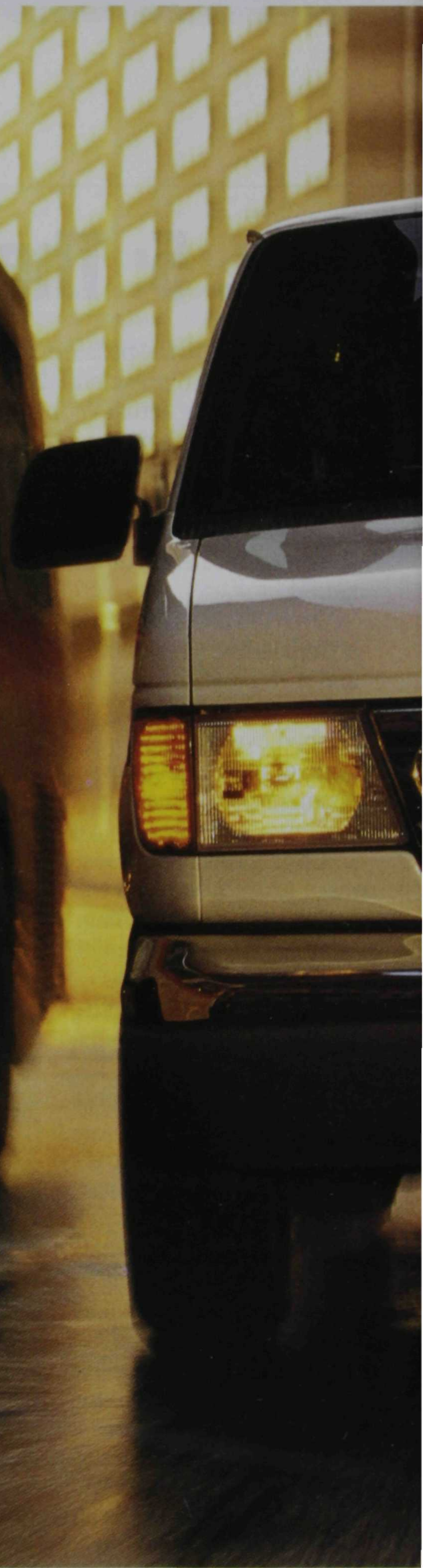
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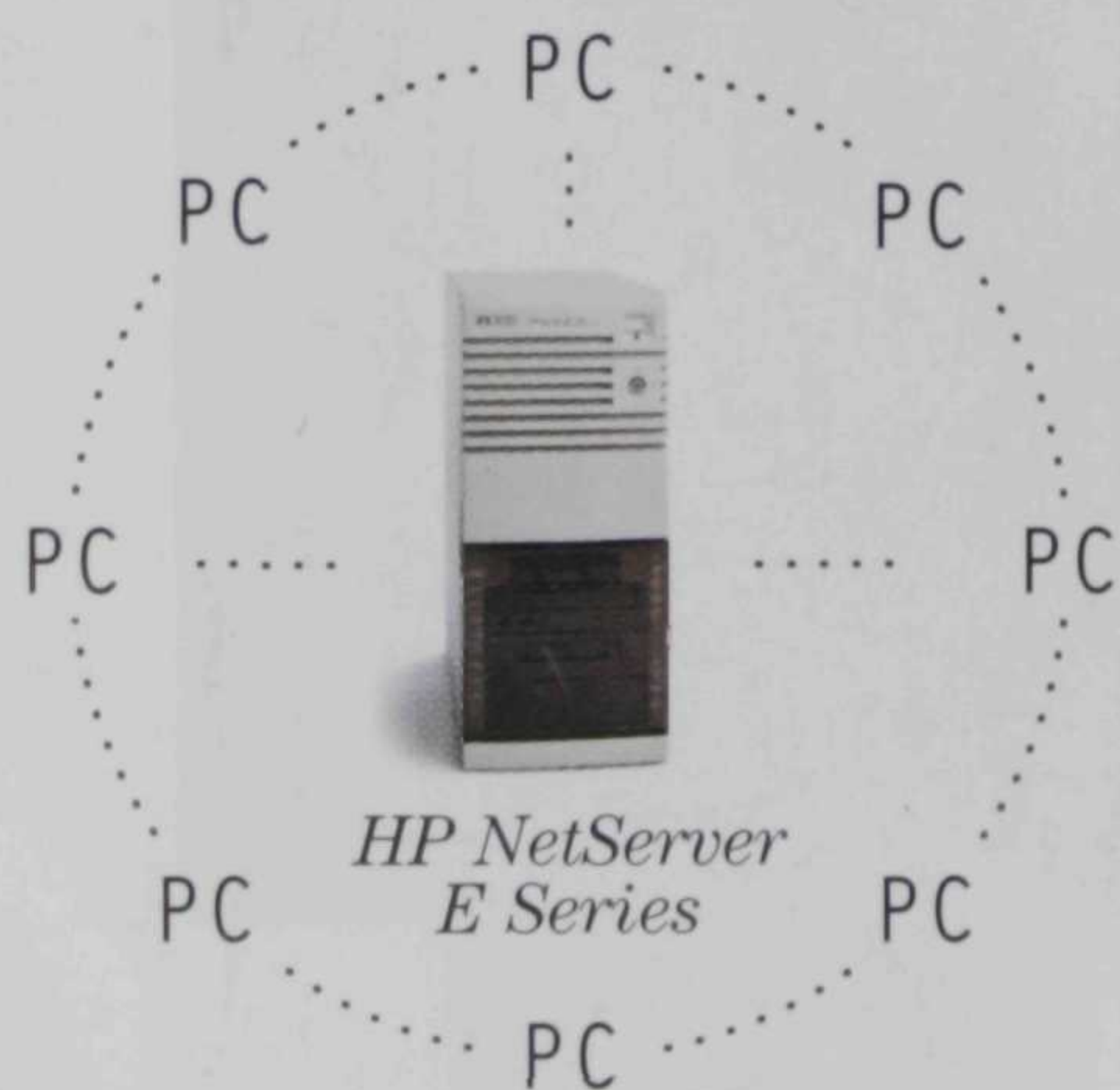


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